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Investigation of bank-charge card influence in Montana

Marshall Prchal

The University of Montana

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AN INVESTIGATION OF BANK-CHARGE CARD INFLUENCE IN MONTANA

By

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B.S., University of South Dakota, 1964

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Master of Science

UNIVERSITY OF MONTANA

1971

Approved by:

[Signatures]

Chairman, Board of Examiners

Dean, Graduate School

Date

April 6, 1971
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Chapter 1

INTRODUCTION

Plastic credit cards had been used for an extensive period of time; however, the advent of the bank credit cards and the growing use of those cards made the so-called plastic credit systems important factors regarding consumers' purchasing and financing habits. Even though many articles have been written about bank credit cards, as well as other plastic credit, most of the material has been slanted toward sensationalism. As a result, the content was questionable regarding the facts presented. (Examples are in the Bibliography.) No implication was made that writers, lied, merely that they presented no verified evidence to support conclusions drawn.

However, other documents have been the result of careful research or current testimony of leaders in government and business. This study made use of three of the latter considered scholarly: Bank-Credit Cards and Check-Credit Plans, published by the Board of Governors of the Federal Reserve System; Bank-Credit Cards and Check-Credit Plans containing testimony and documents presented to the Senate Subcommittee on Financial Institutions during hearings on credit cards; and "A Study of Charge Account Banking and Its Financial Performance" by Harlan R. Patterson, a doctoral dissertation completed in 1963.¹

The previously mentioned documents treated bank credit cards and credit card plans from a national viewpoint but did not venture into specific geographical regions. Patterson's study was an exception as his thesis contained a poll taken in two midwestern cities.

SCOPE OF THE STUDY

The primary purpose of the study was to examine the effect of bank cards on buying and financing habits of consumers in Montana. In order to place these effects in proper perspective, it was considered important to obtain information from those consumers who never had had a bank card and those who, possibly, had received a card but had rejected it.

Comparisons were made between Patterson's study and this Montana study. However, marked differences in environment had to be considered when evaluating such comparisons. Patterson selected cities near East Lansing, Michigan. Also, Patterson's study was confined to bank card holders, and he did not obtain data regarding persons who did not have bank cards. Otherwise, Patterson's study was minutely detailed in reference to bank card plans and subsequent implications for merchants and banks. Characteristics of card holders were a minor portion of the study as the major emphasis was on the institutional aspect of bank cards.

In planning the bank card study in Montana, several methods were considered before a plan was selected. Initially, the purpose of the study was to determine the influence of bank cards in Montana, particularly changes in consumer buying habits and financing habits, and the implications of relatively unrestricted credit.
Information about bank card holders could have been obtained from banks; then, comparisons might have been drawn with similar information supplied from retail outlets for bank cards. However, with this approach, data, necessarily, would have been limited to those who held credit cards. In addition, interviews with bankers and merchants throughout the state would have been required.

Also termed desirable was information from those persons who never had received a bank card or had received one but had rejected it. To obtain information from both card and noncard holders, a sample of the Montana population was polled through the use of a mail questionnaire (see Appendix). The questionnaire was mailed to residents of 118 Montana cities and towns. Analysis of the data thus obtained is presented in Chapter 4. Chapter 5 contains the conclusions drawn from this analysis.

Chapter 2 gives a brief description of credit cards in general and a comprehensive discussion of bank credit cards and bank card plans. The position of banks, retailers, and card holders is explained; furthermore, methods of bank card distribution are considered. An analysis of the problems associated with bank cards also is given in Chapter 2.

Among the problems discussed are the associated problems unsolicited bank cards and promotion of overspending by way of bank cards, particularly by low income persons. Another problem is the apparent inability of bank card holders to obtain correction of the computer printed statements. To communicate with bank card companies has proven difficult, particularly in admitting error. (Periodical articles in Bibliography contain numerous examples.)
Other complaints are lodged against bank cards: high interest on revolving credit, liability resulting from loss or theft of bank cards, and the possibility that bank cards promote inflation. However, the problems considered pertinent to Montana card holders assumed precedence, hence received the most thorough treatment in the study.
Chapter 2

BANK CARDS AND BANK CARD PLANS

Credit cards have been in existence since the turn of the century when a few hotels issued credit cards to regular customers. In 1914 a few large department stores and gasoline station lessors issued cards to valued patrons. These cards were the forerunners of the credit cards which became familiar currently.¹

Issuers of credit cards later included railroads (1947); airlines (1949); and shortly thereafter the so-called travel and entertainment cards, the first multi-purpose cards. The most prominent of these were Diners Club, Crète Blanche, and American Express.² Use of the railroad, airline, and hotel-motel cards was limited initially to the issuing firms. Later, acceptance was expanded to include car rentals and restaurants. Early multi-purpose cards were definitely travel oriented and were conceived as travel cards even though use encompassed a wide variety of firms and of products.³ Nevertheless, these cards have not gained the nearly universal acceptance of current bank cards.

²Ibid.
³Ibid., p. 15.
The majority of the aforementioned cards are issued only upon the receipt of a detailed application for credit. Before applicants are considered worthy credit risks and cards issued, personal financial information is requested and definite standards are endorsed. If an applicant qualifies for the rather extensive line of credit offered by the Diners Club or American Express (line of credit often exceeded $2,000), the income to debt ratios must fall within definite limits. Issuers of the travel cards all charge annual membership fees and are prompt in canceling delinquent accounts.

CURRENT CREDIT CARDS

Credit cards currently available include the bulk of the early cards plus some new ones. Hotel cards remain in evidence and most major chains continue to offer individual cards. In addition, the American Hotel Association offers a card accepted by 3,250 member hotels. These cards are used in order to purchase rooms, meals, and car rentals. Some hotels have granted check-cashing privileges.

Travel cards, such as Diners Club, Carte Blanche, and American Express, are in use by nearly 6,000,000 card holders. The American Express reports doubling business every two and one-half years. As a result, acceptance of travel cards has expanded since the initial issuance. However, expansion has been in number of firms, not in variety.

4Ibid.
5Ibid.
In rural areas, on the other hand, travel cards are not prominent and have not opened the variety of outlets available to bank card holders.

Department stores and clothing stores continue to issue cards, but requirements for obtaining them have been eased. Frequently, application blanks require no more than the name, address, and occupation of the applicant. Some effort, perhaps, has been made to determine an applicant's credit worthiness, but the applicant is seldom requested to supply such information. Relaxation of credit standards is possibly, one effect of the competition from unsolicited bank cards.

Gasoline company cards are accepted currently at certain chain motels and car rental agencies as well as gas stations. Appropriately, one company cashes checks of less than $30.00 for holders of that particular credit card. Also, a wider variety of items are now available to gas company card holders because of changes occurring in gas station merchandise. Superamerica is an example of the diversified gas station. This company retails a variety of items including groceries, boats, beer, and bicycles. In addition, gas companies have eased issuing requirements. Formerly, an application was required to obtain a gas card; presently, many cards are distributed without solicitation.

Bank credit cards undoubtedly influenced the gas company shift toward product diversification and wider acceptability of oil company credit cards. A further change in gas company cards has been the addition of revolving credit. This addition, probably, was another influence of bank cards. Gas companies have begun to view the interest

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7The company referred to is the Continental Oil Company.
on revolving credit as a new source of income; hence, these companies have sought to stimulate use of a single brand card rather than to lose interest income to unassociated bank card companies. Also, a product loyalty was generated by brand name cards that was lost with the bank card.\(^8\)

A few other, single-purpose, credit cards have national prominence. Three worth mentioning are the Bell System card for long distance calling, the Western Union telegraph card, and Hertz Rent-A-Car system card.

Other car rental agencies also have cards. These have competition from bank and travel cards, but Bell System and Western Union cards are unique, unlikely to be replaced by a competitor. However, usefulness of the latter cards is limited to services offered by the respective issuers.

**Bank Credit Cards**

The Franklin National Bank of Franklin Square, New York, was credited with the issuance of the first of the present current bank charge cards in August, 1951. Full operation of this initial system was achieved by April of 1952.\(^9\) Other bank card systems were put into operation during the ten years following the initial attempt by the Franklin Bank. Peak bank card initiation occurred during a two-year period, 1958 and 1959, with the Bank of America launching BankAmericard in 1958. By the end of 1959, 204 similar plans had been introduced, among which was Master Charge.\(^10\)


\(^9\)Bank-Credit Card and Check-Credit Plans, loc. cit.

\(^10\)Ibid., pp. 8-9.
Having achieved universal acceptance, the two most widely known bank cards are BankAmericard and Master Charge. Whereas the origin of the first is self-evident, the latter is issued by the Interbank Card Association. Even though both of the systems have a national distribution, they experience, however, varying degrees of geographical acceptance.

Bank card plans. Bank card plans, though remarkably similar, are not identical. The variations between the plans are implied by the amount of responsibility assumed by the issuing banks. Typically, local sponsors issue cards through the auspices of disassociated bank card companies. As an illustration, banks issuing BankAmericard in the state of Montana are franchised through the Rocky Mountain B.A.C. Corporation in Denver, Colorado. The Denver office of Master Charge fulfills a similar function. An important aspect of this arrangement, a problem to be discussed later in the study, is the fact that all correspondence regarding individual bank card accounts for Montana is handled by these regional offices. Consequently, any errors in the accounts must be corrected by the regional offices, not by the local sponsor.

Variations in bank affiliation are listed under the following two headings:

Operating Responsibilities of Bank

1. Signs and services merchants.
2. Sets credit standards for card holders and issues bank cards.
3. Carries revolving credit of card holders and is responsible for losses.
4. Operates basic accounting system for plan.
Interchange Arrangements

1. Interchanges with other card plans.
2. Agrees to use specified card design.
3. Pays fees to other banks or to an association.
4. Receives technical assistance.

Acceptance of the listed variations in affiliation is determined largely by two categories of affiliation which are identified under the following headings:

Bank Operating Full Card System

1. Independent bank.
   (a) No interchange.
   (b) Membership in interchange or association.
2. Licensee bank.

Bank with Limited Responsibilities
Under a Principal Bank

1. Associate bank (sometimes called licensee).
2. "Participating" agent bank.

Since the basic purpose of the study is concerned with consumers, the variations are not discussed in detail. They are offered solely for the purpose of providing examples of bank affiliation with credit card plans.

Once a local bank decides to affiliate with a bank card plan, two courses of action are pursued nearly simultaneously. One is to sell the system to retail merchants within the trade area while the second is to distribute cards to prospective users. Under all affiliations, local banks sign and service merchants; with most affiliations, local sponsors set credit standards of cardholders and distribute cards.

\[\text{Ibid., p. 24}\]
\[\text{Ibid.}\]
Firms joining bank card systems first open accounts with sponsoring banks if one has not existed previously. Merchants then bring bank card sales slips to the sponsoring bank; next, an individual account is credited with the amount of the purchases less a discount. Discounts paid by merchants varied between \( \frac{1}{2} \) of 1 percent to as high as 8 percent.\(^{13}\) Most Montana merchants paid from 4 to 5 percent.\(^{14}\) In contrast, discounts on sales of airline tickets were much lower, averaging about \( 1\frac{1}{2} \) percent.\(^{15}\)

In return, merchants benefit in several ways. They might elect to discard an individual credit system; were they to do so, they would be relieved of the costs of operating credit and collection departments. Another benefit is that the operation is conducted on a virtual cash-and-carry basis in reference to retail sales; also, capital requirements are less to maintain similar levels of operation, since nothing is dormant in receivables.\(^{16}\)

Large department stores frequently resisted bank card plans. Such firms were likely to have well-established credit cards and considered the interest from revolving credit as a source of income. Too, they were aware that under a bank card system, close contact with customers was not possible when credit moved to banks. Neither were they

\(^{13}\)Ibid., p. 12.

\(^{14}\)Statements by A. E. Ohmdahl and merchants, personal interview, December, 1970.

\(^{15}\)Bank-Credit Card and Check-Credit Plans, loc. cit.

able to send advertisements along with the monthly statement as well as being able to rectify personally any customer dissatisfaction. On the other hand, small firms often viewed bank card plans as opportunities to provide charge account purchasing without the problems and expense accompanying an internal credit department. In the final analysis, the market situation for each store was unique and determined the practical avenue of operation.

Disadvantages were also inherent with bank card plans. In addition to loss of customer contact, other disadvantages included the loss of brand identification and consumer loyalty to the firm. Actual cost of card plans, possibly, was a real disadvantage or an imagined one, depending upon the costs of operating an internal credit system. Stores that were offered discounts lower than the cost of operating personal credit systems were wary. Perhaps, once the bank card was installed and an individual system dismantled, a disadvantage in renegotiation of discounts might occur at a later date.17

Loss of revolving credit income was another deterrent to bank card plans. Such loss of interest income was of little consequence to stores with small volume but was an item of importance to oil companies and large department stores. In conclusion, companies large enough to operate internal credit systems at a profit found little advantage in bank cards. Smaller firms were more likely to take the opposite view and had more readily adopted bank card plans.

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17Bank-Credit Card and Check-Credit Plans, op. cit., p. 46.
Chapter 3

IMPLICATIONS OF BANK CHARGE CARDS

The unsolicited distribution of bank credit cards has been a major topic in the United States. Senate hearings have credited such distribution with increasing bank card theft and consequent fraudulent use.

The very nature of bank card systems required distribution to a mass market if plans were to succeed. Unless a large percentage of shoppers retained and used a bank card, little incentive existed for merchants to install card plans. In fairness to banks, the point was well made that initially attempts to distribute cards were accomplished by offering application forms to depositors. Response to this effort was practically worthless. One bank reported distributing 33,357 application forms to depositors and received a return of 221, or 0.7 percent. Consequently, solicitation by application was abandoned, and the practice of mailing unsolicited cards (or similar plans) was established.¹

Distribution of unsolicited cards required the acquisition of a mailing list of prospects, desirably a list of persons of good credit standing. For many prospects, however, no credit knowledge was

available. Lists were composed from bank depositors or from credit customers of department stores, but many lists were obtained from firms selling lists for product-promotion purposes. To investigate persons named on commercial lists was impractical, and to examine information available for people whose names were obtained from depositor or department store records was considered too expensive.²

Problems associated with unsolicited credit cards received the greatest public airing when five banks in the Chicago area mailed cards, nearly simultaneously, during the Christmas rush. Many cards were delivered to incorrect addressees, thousands were stolen from mailboxes, and many persons received multiple cards. Losses to banks were reported by Chicago news media to be nearly $50 million; however, other sources estimated the loss at a minimum of $6 million. Chicago banks did nothing more than follow the usual practices in distributing cards. Primarily, the problem was poor timing. Too many banks tried to distribute cards during a period when the postal system normally was overburdened causing it to utilize large numbers of temporary and inexperienced workers. Resulting confusion created bad publicity for unsolicited credit cards.³

Unsolicited bank cards have been credited with invading the privacy of and placing unwanted responsibilities upon card recipients, particularly those who did not want credit cards. After the chaos in Chicago, some banks resorted to registered mail in order to deliver

³Ibid.
cards. Yet, use of registered mail did not eliminate the invasion of privacy.

A further imposition of unsolicited cards was the liability for a valuable credit instrument being placed upon recipients regardless of any willingness to accept such liability. Responsibility of the prospective card holders had not been determined, and literature accompanying cards did little to clarify the limits of the proposed liability. Proposed legislation might limit liability to a maximum of $50.00 if the card had not been accepted, acceptance being indicated by the signature of the recipient named on the card. If the card were lost or stolen after being signed, then the question of liability was difficult to resolve.

Supposedly, card owners were not liable for purchases made after reporting loss or theft. Actual practice indicated that the rule was not always applied, for credit card companies often ignored fixed rules and attempted to collect all charges from named owners of cards, no matter when the company was notified of the loss. Too many cases of overzealous collection methods used by companies have been documented for consumers to ignore liability aspects inherent in credit cards.

A serious question was posed by the author: ought individuals be forced to accept liability of $50.00 regardless of willingness to


5 U.S., Congress, Senate, Committee on Banking and Currency, op. cit., pp. 80-94.

accept an offered credit card? Such was, in fact, the liability to the recipients of unsolicited bank cards if the cards were stolen or were lost before they have had an opportunity either to destroy the card or to accept liability knowingly for the card.

Some banks had attempted to reduce fraudulent use of stolen credit cards. One such bank placed a color photograph of each recipient on the card. Obviously, this practice was expensive and, perhaps, was not entirely practical. A much simpler step was the education of firms accepting credit cards. Personal use of both BankAmericard and Master Charge has revealed a laxity on the part of business places where cards were used. Not many businesses accepted personal checks without identification of the bearer, but the same firms accepted bank cards without hesitation—never asking for identification. However, the card user's signature on a receipt was not adequate identification. Cards stolen before being signed by the named recipients bore no signature but that of the thief. Obviously, business firms did not realize that bank cards were susceptible to the same abuses as personal checks.

PROMOTION OF OVERSpending

Related to the problem of unsolicited bank cards was the possibility that bank cards promoted spending beyond the means of the card holder. Particularly important was the impact on low income families, the inference being that people in higher income brackets were adequately familiar with credit to be able to control desires for material goods or, at worst, to be knowledgeable about the consequences of incurring credit beyond their ability to pay.
Primary concern was for low income persons or families receiving unsolicited cards in the mail. From lack of credit experience, they, possibly, were lured into making purchases unlikely to be made without cards. Bankers attempted to justify mailing cards to low income persons by proclaiming overbuying seldom happened and was evidently a mistake. This defense, perhaps, bore a grain of truth as little evidence was presented showing that bank cards frequently contributed to bankruptcy. Nevertheless, evidence was available thus indicating that low income persons had received bank cards and had been involved with financial difficulties because of the card. Even though bank card accounts were involved in a minor percentage of bankruptcies, to be taken into consideration was the fact that bankruptcy represented the extreme of indebtedness. Accurate figures were not obtainable for the number of people who had assumed a crushing burden of debt because of bank cards but who were, somehow, managing to meet payments, not yet being forced into bankruptcy.7

Overspending by low income families was difficult to evaluate accurately; hence, no definite conclusions have been reached. On the other hand, enough evidence existed to cause the Federal Trade Commission to issue an order prohibiting distribution of all unsolicited credit cards except by banks and common carriers. Lack of jurisdiction exempted from this ban.8 The United States Senate investigated the

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7U.S., Congress, Senate, Committee on Banking and Currency, op. cit., pp. 30-50.

possibility of the danger to poor families; as a result, on April 15, 1970, the Senate passed Senate Bill 721 (79 to 1) prohibiting distribution of unsolicited credit cards and providing penalties for violations. The bill was returned to the House where no action was taken. The House was considering at least three bills of a similar nature but none had received final committee approval. Evidently, sooner or later legislation restricting the distribution of unsolicited credit cards was to be enacted.

**Billing by Computer**

Computer billing has expanded into many forms and was not a phenomenon of bank cards alone. Bank cards have received attention regarding errors of computer billing because of the difficulty arising in the correction of the errors. Part of the difficulty regarding errors was a result of the statement being sent from a distant city. Montana card holders, for example, were billed from Denver, Colorado. Perhaps, the real difficulty lay within the bank card company per se rather than the computer or the distance involved. Experience indicated that most bank card holders attempting to communicate with the bank card company had only the address given on the monthly statement. That address proved frustrating when any person attempted to communicate with the company.

Bank card companies preferred to explain difficulties arising from computer-calculated bills by blaming errors on the computer. The card-using public was indifferent, as it, necessarily, ought to be, to the internal problems of bank card accounting. That public was

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9 *Congressional Quarterly*, XXVIII, 6 (April 17, 1970), 1002.
concerned only with their unique problems on bank card statements. Any unresolved errors in bank card statements were important if only for the fact that many credit reporting agencies obtained information from bank card companies. As a result, derogatory credit information, perhaps, caused an impairment of an individual's credit rating. Consequently, errors became serious matters. Thus, there are both positive and negative aspects of bank cards.
BANK CHARGE CARDS IN MONTANA

Bank charge cards were introduced first in Montana when the Security National Bank of Billings installed BankAmericard in May, 1968. Within six months, Master Charge was introduced by the Midland National Bank of Billings. These two bank cards were the only ones in use in Montana. Montanans, perhaps, hold bank cards other than these two, but virtually no establishments accepted cards other than BankAmericard and Master Charge. Consequently, throughout the study, all reference to bank cards was to be construed to mean BankAmericard and Master Charge.

Sponsorship of bank credit plans spread rapidly across Montana; consequently, cards were being accepted by merchants in every major city by the end of 1968. Personal travel during the winter of 1968-69 disclosed retailers accepting bank cards in nearly every town in the state. In smaller communities, acceptance often was limited to a gas station or a motel. However, these limited sources of acceptance lent credulity to the supposition that Montanans were familiar with bank credit cards, had some source of acceptance, and had opportunity to obtain cards.

BANK CARD ACCEPTANCE IN MONTANA

Montanans had many varied opportunities to use bank cards. A wide selection of establishments accepted bank cards; hence, the number of outlets for cards increased. Usual sources of acceptance were department stores, gift shops, motels, gas stations, and other common
retail establishments. Unusual sources of bank card use were reported by the *Billings Montana Gazette*. Among those mentioned were a wig selling firm, a multi-purpose drug store, a gunsmith, a business equipment firm, and a print shop. One individual was reported to have used a bank card to purchase a low-priced used car from Midland Dodge. This list of firms was indicative of the variety of goods and services possible with a bank card.¹

Invasion of bank cards into new fields was illustrated in the *Great Falls Montana Tribune*. An article told of members of the Great Falls Auto Dealers Association ceasing to maintain internal credit accounts for parts and service and going exclusively to bank or certain oil company cards. A spokesman indicated that special arrangements were to be made for customers who did not have cards and who did not wish to obtain them, but such arrangements were discouraged.²

A startling departure from tradition was the switch from internal credit to bank cards by farm implement dealers of Great Falls. Dealers dropped the traditional "charge all summer and pay in the fall" credit farmers had enjoyed for years and had adopted BankAmericard and Master Charge for credit purchasing. In view of the tight money situation and the lessened sources of farm credit, the shift to bank cards might have some effect on farmer attitudes toward bank cards.³


²"Auto Firms Switch to Bank Charge Cards for Parts, Service," *Great Falls Montana Tribune*, June 11, 1970, p. 11.

Growing importance of bank cards as a source of consumer credit was one reason that this study was undertaken. Another factor was the effect of easy credit purchasing on consumers. Were card holders being lured into debt by bank card promotional schemes? In view of charges that bank cards promoted overspending by poor families, some bank card promotions appeared questionable. Master Charge promoted card credit buying by offering gifts to people who charged purchases totaling $100, $200, $300, or $400 through the months of July to September, 1970. The company called this the "galaxy of gifts" and offered items ranging in value of $5.00 to $30.00. This promotion was reminiscent of gifts awarded new depositors by savings and loan companies; a gift awarded for saving money was one factor but a gift awarded for assuming debt was another.

The gift program might be defended by pointing out that it offered card users a discount of approximately 5 percent. Those who paid their bank card charges in full every month benefited, but the promotion was designed obviously to expand the use of revolving credit bearing monthly interest rates of 1½ percent. Apparent, then, was that the initial discount was offset within a few months, depending upon the rapidity of payment.

Research Methodology

A questionnaire was designed for both card holders and non-holders (see Appendix A). The first 12 questions applied to all the

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4 *Galaxy of Gifts* (Denver, Colorado: Master Charge Department, P. O. Box 5812TA, n.d.).
recipients, but the last 9 questions concerned bank card holders only. A population sample was selected at random from telephone directories representing all geographical areas of Montana. Selecting of the sample was determined by the population of the area represented by each directory. A total of 978 questionnaires was mailed to residents of 118 Montana communities.

Use of telephone directories for a sample source had obvious limitations, inasmuch as all persons did not have telephones. However, such a sample ought to provide a cross section of population sufficiently representative for the purposes of this study.

To increase the response from recipients of questionnaires, a cover letter (see Appendix B), bearing the heading of the Bureau of Business and Economic Research, University of Montana, and signed by the Bureau of Director, Dr. Rudyard B. Goode, Dean of the University of Montana School of Business, was used to give the study a semi-official status; such status was expected to provide returns from recipients who might not otherwise respond.

To enhance further the return of completed questionnaires, the University of Montana News Service issued a release to all newspapers in the state, describing the study and emphasizing that no one ought to identify himself when answering the questionnaire. Later, a second release was issued extending the deadline for returning questionnaires.

Questionnaires were not keyed in any manner, and the only identification was the postmark on the return envelope. Sufficient funds were not available for second mailings nor attempts to identify non-respondents; thus, nothing was to be gained by keying the questionnaires.
Since no way existed to compare respondents with non-respondents, the possibility of non-response bias was considered. As a basis for determining whether or not the sample obtained represented an accurate cross section of the population of Montana, three categories were set. Comparisons were made in terms of age, unemployment percentages, and geographic location of the respondents. It was considered desirable to compare income classes, but the only comparable data were recorded in 1959; in view of the changes wrought by inflation during the past 10 years, income comparison was not considered valid.

As each questionnaire was returned, it was dated, numbered, and recorded by city postmark. Forty-one of the 118 communities sampled did not respond. The 41 non-responding towns represented 66 questionnaires or 6.8 percent of the total mailed. Response from the remaining 77 towns was 40 percent of the 967 questionnaires. The 388 respondents represented all geographical areas of the state; no indications were apparent that the entire state was not represented proportionately. Towns from which no response was received represented a small proportion of the population and were not considered significant. General response from rural areas was excellent; hence, the 44 small communities not responding were not considered a rural bias.

Question one of the questionnaire placed respondents in one of seven age groups. Selection was made to provide homogeneous groups for the study. Data received then were compared with the 1968 estimates of population. Classes from these estimates were revised to coincide with the age groups used in the questionnaire. Results of the comparison are tabulated in Table 1.
### Table 1

Age Distribution of Montana Residents
Estimated and Sample

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<td>11.5</td>
<td>15.2</td>
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</table>


Note: A source of possible error lay in the revision of the estimated age groups.
A possible source of error lay in the population estimates. The 1968 data estimated a total population of 693,000\(^5\) while final figures from the 1970 census indicated a total of 701,573\(^6\) but did not reduce this figure into age categories. Any shift in composition of the Montana population, by age, might cause errors of larger magnitude than normally were to be expected from the slight difference between the 1968 estimates and the 1970 census. Magnitude of this error was undetermined but might have added to the differences observed in Table 1, page 25.

Variations between sample and population estimates in the 18 to 25 age group were attributed largely to the fact that persons in this age group seldom maintained individual households and were difficult to reach through lists readily available to the researcher. Groups containing the ages of 34 to 57 showed an average variation of 3.7 percent between the sample and the estimate. Previously mentioned possibilities for error might have contributed to this variation; since this group also contained the bulk of bank card holders, a slightly higher response might have occurred because of greater interest. On the other hand, many non-card holders were vehement in their denunciations of bank cards, hence ought to be treated as interested respondents. However, a small increase in the response from card holders would not create any damaging bias since the primary concern of the study was with card


\(^6\)The 1970 census data were published in the Billings Montana Gazette, December 1, 1970, p. 1.
holders. Data from non-card holders were desired to determine if any substantial difference occurred between card holders and non-holders. Differences that did appear were supported by data from previously published studies.

The third question asked was: "Are you employed?" and question 3b asked: "If you are retired, how many years have you been retired?" Data obtained from these two questions revealed 81.5 percent of the respondents to be employed, 14.2 percent retired, and 4.3 percent unemployed. The figure used for comparison was the percentage of unemployed persons as reported by the Montana Bureau of Labor Statistics. The seasonally adjusted figures showed 4.4 and 4.2 percent of the covered, civilian labor force to be unemployed in July of 1967 and 1968 respectively. The average unemployment rate, seasonally adjusted for 1969 was 4.5 percent--very close to the sample figure.

Comparisons of sample data with population data indicated the sample did represent a reasonable cross section of the Montana population. Possibilities for error existed, but no study of population characteristics were freed from error unless the entire population was polled. Throughout the study, unusual variations had been noted as well as possibility for error.

Cross Comparisons: Crosstabs

The data from 388 questionnaires provided a large amount of material to analyze; as a consequence, customary procedures, using an

electric calculator, proved too time-consuming for a comprehensive evaluation of all the statistics. Therefore, a computer program entitled "Crosstabs" was instigated in order to make cross comparisons of different questions; ultimately, data were compiled for 52 companies.

Data from the Crosstabs printout included proportions of persons answering the questions, percentages of total answers, proportions of each category, and the number of answering each category. In addition, Crosstabs provided nine statistical tests. Unobtainable at few other universities, the computer program Crosstabs was nearly a unique procedure. Use of this program proved particularly fortunate for the study.8

Family Income Compared with Bank Card Retention. Family income was divided into numeric classes, and bank card retention was compared with those classes. Also taken into consideration were the incomes of persons who never had received a bank card. These statistics are contained in Table 2.

Answers from the 261 persons receiving cards showed little difference between income classes as far as card retention was concerned. A slightly higher rate of retention existed among the upper three income classes while the lesser three income groups exhibited a lower rate of retention. One of the highest rates was in the $5,000 to $6,999 income class; income then was not a consideration for retention.

Next, three groups were devised to obtain a more clearly compre-

---

8Crosstabs was developed by Mr. Richard Anderson, an instructor at the College of Business, University of Montana, Missoula
<table>
<thead>
<tr>
<th>Income Level</th>
<th>Percentage Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.0 - $25000</td>
<td>8.4%</td>
</tr>
<tr>
<td>$25001 - $50000</td>
<td>3.4%</td>
</tr>
<tr>
<td>$50001 - $75000</td>
<td>2.3%</td>
</tr>
<tr>
<td>$75001 - $100000</td>
<td>1.1%</td>
</tr>
<tr>
<td>$100001 - $30000</td>
<td>0%</td>
</tr>
<tr>
<td>Under $30000</td>
<td>0%</td>
</tr>
</tbody>
</table>

Table 2

Bank Card Receipts by Income Level

Notes: Data apply to sample only.
hensive evaluation of those not receiving cards: under $6,999 (low income); $7,000 to $14,999 (middle income), and $15,000 to over $25,000 (high income). Comparison showed that lower income respondents were less likely to be offered cards than those in the highest income category. Thus, income did appear a factor to receipt of a card. Table 3 contains data from comparison of combined income groups.

Answers obtained from the lower four income classes indicated that 50 percent of the 117 persons in those classes never had received a bank card, while no more than 7 percent of the 73 people in the highest two income groups never had been offered a card. Some explanation might lie in the sources used for bank card mailing lists: names of depositors (checking account, etc.) or previous borrowers. This source then contained nearly all persons with incomes over $10,000 but excluded many with incomes under $5,000. Those with incomes over $10,000 were expected to have checking accounts or to have done business with a bank making their names available for a mailing list. On the other hand, families with incomes under $5,000 were not likely to maintain checking accounts as they often were paid weekly and chose to avoid charges usually assessed against small account balances.

Age of persons in lower income brackets also might be a determinant regarding reception of bank cards. Comparison of income level with age showed the largest percentage of people earning less than $6,999 to be in the 18 to 25 or over 66 age groups. Contained in the lower four income groups were 80.4 percent of those over 66 as well as 75 percent of the people between the ages of 18 and 25. It was found that 67.9 percent of the over 66 group earned less than $4,999 while
### Table 3

Number and Income Level of Persons Never Offered Bank Card

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Number of Persons In Each Class</th>
<th>Number of Persons Not Receiving Cards</th>
<th>Percentage Not Receiving Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $6,999</td>
<td>117</td>
<td>58</td>
<td>50.0</td>
</tr>
<tr>
<td>$7,000 - 14,999</td>
<td>168</td>
<td>33</td>
<td>20.0</td>
</tr>
<tr>
<td>Over 15,000</td>
<td>73</td>
<td>5</td>
<td>7.0</td>
</tr>
<tr>
<td>Total</td>
<td>358</td>
<td>96</td>
<td></td>
</tr>
</tbody>
</table>

Note: Total number in sample was 358.
32

50.0 percent of the 18 to 25 year olds earned less than $4,999.

Since the lower income groups were composed of persons past retirement age or those beginning working careers, not surprising was the fact that levels of card retention and reception were lower than that of the majority of persons in the upper income levels whose ages were between 35 and 57. Younger persons had inconclusive credit ratings, and many did not have checking accounts. The over 57 age group had many retired persons with limited incomes and reduced credit standing. Extreme of youth and age, thus, were poorer credit risks; such factors, perhaps, were determinants in keeping names off mailing lists. Table 4 has statistics of income and age distribution.

In a further effort to determine characteristics of persons who retained or rejected bank cards, data regarding those making dwelling payments were obtained by a cross comparison with income level and dwelling payment. The comparison revealed that dwelling payments did not influence bank card retention. Income levels of those making dwelling payments were virtually identical to the levels containing the majority of card holders. The lowest income level contained few persons making dwelling payments. Such was expected as this income level also contained the majority of young and old.

Some general conclusions that were drawn from this comparison and previous comparisons were that the largest percentage of card holders were from 33 to 57 years old, family incomes ranged from $7,000 to $24,999, and monthly payments were being made on dwellings. Non-holders were under 33 and over 66 years of age. Their incomes were less than $7,000; consequently, they were not as apt to be making payments on
<table>
<thead>
<tr>
<th>Age Groups</th>
<th>Under $300</th>
<th>$3000-$3999</th>
<th>$4000-$4999</th>
<th>$5000-$6999</th>
<th>$7000-$9999</th>
<th>$10000-$14999</th>
<th>$15000-$24999</th>
<th>Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>12.5</td>
<td>12.5</td>
<td>25.0</td>
<td>25.0</td>
<td>6.3</td>
<td>12.5</td>
<td>0.0</td>
<td>6.5</td>
</tr>
<tr>
<td>26.33</td>
<td>2.0</td>
<td>0.0</td>
<td>8.0</td>
<td>16.0</td>
<td>36.0</td>
<td>18.0</td>
<td>18.0</td>
<td>2.0</td>
</tr>
<tr>
<td>34-41</td>
<td>3.4</td>
<td>3.4</td>
<td>0.0</td>
<td>11.9</td>
<td>27.1</td>
<td>27.1</td>
<td>20.3</td>
<td>6.8</td>
</tr>
<tr>
<td>42-49</td>
<td>2.9</td>
<td>1.5</td>
<td>2.9</td>
<td>8.8</td>
<td>17.6</td>
<td>38.2</td>
<td>20.6</td>
<td>7.4</td>
</tr>
<tr>
<td>50-57</td>
<td>0.0</td>
<td>3.3</td>
<td>3.3</td>
<td>9.8</td>
<td>27.9</td>
<td>36.1</td>
<td>13.1</td>
<td>6.6</td>
</tr>
<tr>
<td>58-65</td>
<td>6.8</td>
<td>13.6</td>
<td>9.1</td>
<td>2.3</td>
<td>27.3</td>
<td>20.5</td>
<td>11.4</td>
<td>9.1</td>
</tr>
<tr>
<td>66+</td>
<td>26.7</td>
<td>23.2</td>
<td>17.9</td>
<td>12.5</td>
<td>10.7</td>
<td>3.6</td>
<td>5.4</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Sample Average: 7.1 7.3 7.3 11.0 23.2 24.3 14.4 5.4

Note: Data apply to sample only.
dwellings.

**Credit Experience of Bank Card Holders.** Bank credit cards had been criticized for leading those lacking credit experience into overspending and, subsequently, into financial difficulty or bankruptcy. Since all but nine Montana card holders surveyed received cards unsolicited, of importance was to determine previous credit experience.

Previous credit experience was determined, first, by comparing the age of respondents to previous borrowing experience. Such a comparison was considered valid because of the previously obtained information regarding the age of card recipients and of card retainers. The question asked was: "have you ever borrowed any money for personal use?" Over 84 percent of those responding had previous credit experience, and less than 16 percent had not. Although the younger persons and those in the upper age levels exhibited a smaller percentage of credit experience, age was not an important factor. The age groups having the highest rate of bank card retention also displayed the greatest experience with credit. Table 5 presents the data relating to previous borrowing experience by age.

In order to obtain additional information about the credit experience of bank card holders, a cross comparison was made between those persons who retained or who rejected bank cards and those persons who had or who had not borrowed previously. The results of this comparison reinforced the conclusion reached in the previous paragraph: card holders were familiar with the mechanisms involved with credit. (Table 6).

Percentages listed in Table 6 tend to be misleading as the
Table 5.

Previous Borrowing Experience by Age.

<table>
<thead>
<tr>
<th></th>
<th>Percentage Distribution by Age</th>
<th>Sample Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18-25</td>
<td>26-33</td>
</tr>
<tr>
<td>With Previous Credit Experience</td>
<td>75.0</td>
<td>96.0</td>
</tr>
<tr>
<td>Without Credit Experience</td>
<td>25.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
actual number of bank card holders with credit experience was much larger than those without credit knowledge. The group with borrowing experience contained 306 persons, 238 of whom had bank cards. The non-borrowers numbered only 56 with 33 persons retaining bank cards. Obviously, bank card holders with credit experience were prevalent.

Table 6 is concerned with the borrowing experience, by percentage, of bank card holders.

Bank card holders also were compared with persons having department store cards. This comparison revealed a large proportion of department store card holders to have bank cards, but an equally significant number of persons who did not hold department store cards had retained a bank card. The possession of a department store card did not appear to be a factor which influenced the retention of a bank card. The retention of either card was influenced probably more by age, by income, by shopping opportunities, and by individual preferences than by previous possession of either a department store card or a bank card.

Since many persons in small towns were not expected to have a department store card, a similar comparison was made between bank card retention and possession of any other card. The result presented conclusive evidence that previous possession of a credit card had little influence on the retention or rejection of the bank card. Over 90 percent of the respondents had some type of credit card other than a bank card. Ninety-three percent of those retaining bank cards had a different card while 87 percent of bank card rejections were from persons with other credit cards. Table 7 contains data on other credit
Table 6

Borrowing Experience of Bank Card Holders

<table>
<thead>
<tr>
<th>Bank Card Retention</th>
<th>Previous Credit Experience</th>
<th>No Previous Credit Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained a Bank Card</td>
<td>78.1</td>
<td>60.0</td>
</tr>
<tr>
<td>Rejected a Bank Card</td>
<td>21.9</td>
<td>40.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: The group with previous credit experience contained 306 persons; the group without experience numbered 56.
cards as an influence on bank card retention.

The conclusion reached from analysis of preceding comparisons was that the majority of bank card holders had previous credit experience. Also concluded was that rejectors of bank cards had an equal background of credit experience and had rejected cards for reasons other than a dislike for credit cards or an aversion to credit purchasing.

Purchasing habits of bank card holders. Since the largest percentage of bank card holders also had other credit cards, it seemed plausible that bank cards might be used in place of a department store card or some other credit card. Before considering bank card purchasing, it should be noted that bank cards had been in use for a brief 2½ years while most other cards had been available for 40 years. In view of this short history, even minor inroads into other credit areas might be indicative of future trends in consumer buying.

Installment buying had been an important part of consumer purchasing; since overuse of revolving credit by low income families had been a criticism of bank cards, a comparison was made between family income and use of bank card revolving credit. Surprisingly, the comparison revealed few persons in the lower income brackets to be users of revolving credit. Persons in the higher income groups were the only ones using bank card revolving credit to any significant extent, and no more than one-fourth of those individuals were involved with revolving credit (Table 8). Some reasons for this reticence to use bank card revolving credit were disclosed when card holders were asked to give the reasons that they liked or disliked bank cards—a topic to be discussed later in this chapter.
<table>
<thead>
<tr>
<th>Bank Card Possession</th>
<th>Percentage Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Have Other Credit Cards</td>
<td>Do Not Have Other Credit Cards</td>
</tr>
<tr>
<td>Retained a Bank Card</td>
<td>93.1</td>
<td>6.9</td>
</tr>
<tr>
<td>Rejected a Bank Card</td>
<td>87.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Sample Average</td>
<td>91.8</td>
<td>8.2</td>
</tr>
</tbody>
</table>
Further comparisons were made between the items purchased with bank cards and those items purchased with department store cards. The holders of department store cards were asked the following question: "If you have a department store card, what purchases do you make with it?" Respondents were at liberty to answer one or all of the listed categories (Table 9).

The most important category of department store card buying was clothing; the second was furniture, while the third category was major appliances. These appliances constituted the usual items which were stocked by department stores; clothing was expected to head the list. Further examination revealed that only 13 persons had not used their department store cards.

Bank card holders were also asked what they purchased with the bank cards as Table 1 indicates, clothing was purchased frequently but was not found to be the most important category. Furniture and appliances represented a minor part of bank card use; since furniture and major appliances usually represented expenditures of from $100 to $400, the previous finding that bank card holders seldom used revolving credit was supported. Therefore, bank cards were not being used yet as replacements for other sources of consumer financing.

Travel-related industries represented the area of the greatest use by bank card holders. Thirty percent of the bank card users purchased gasoline. Thirty-one percent paid for lodging while 21 percent purchased meals. The indications were that bank cards were beginning to supplement gas company cards. Reasons for this conclusion were based on the fact that:
Table 6

R Downing Credit Use by Income Level

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Percentage of Those Using Revolving Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $3000</td>
<td>3.8</td>
</tr>
<tr>
<td>$3000 - 3999</td>
<td>3.9</td>
</tr>
<tr>
<td>$4000 - 4999</td>
<td>0.0</td>
</tr>
<tr>
<td>$5000 - 5999</td>
<td>2.5</td>
</tr>
<tr>
<td>$7000 - 7999</td>
<td>4.7</td>
</tr>
<tr>
<td>$10000 - 9999</td>
<td>11.5</td>
</tr>
<tr>
<td>$15000 - 24999</td>
<td>21.2</td>
</tr>
<tr>
<td>$25000 - Over</td>
<td>25.0</td>
</tr>
</tbody>
</table>

Note: Over 90 percent of the total sample did not use revolving credit.
<table>
<thead>
<tr>
<th>Purchasing Category</th>
<th>Number</th>
<th>Percentage of Total Respondents (231)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing</td>
<td>197</td>
<td>85.3</td>
</tr>
<tr>
<td>Furniture</td>
<td>47</td>
<td>20.4</td>
</tr>
<tr>
<td>Major Appliances</td>
<td>44</td>
<td>19.1</td>
</tr>
<tr>
<td>Other Items</td>
<td>34</td>
<td>14.7</td>
</tr>
<tr>
<td>NOTHING</td>
<td>13</td>
<td>5.6</td>
</tr>
</tbody>
</table>
1. Bank cards were being accepted by gasoline stations throughout the State of Montana irrespective of the brand; gas company cards, on the other hand, did not elicit this same universal acceptance in the State.

2. Few places of lodging accepted all gas cards, while bank cards were accepted by virtually all innkeepers in Montana.

3. Few restaurants accepted gas cards, but most accepted bank cards.

Both the versatility and the wide acceptance of bank cards, as a consequence, made them popular with those card holders who happened to be travelers.

A startling aspect of bank card purchasing was the number of persons who retained cards but did not use them. Bank card holders reported that 33.9 percent of that group never had used their cards, compared to only 5.6 percent of department store card holders. Patterson found that the largest percentage of non-users received cards unsolicited. Since nearly all bank card holders responding to the Montana study had received cards in this manner, the assumption was made that inactive card holders were those recipients indifferent to credit cards and, probably, might never have made any effort to acquire one. Having received one, they kept it for various reasons discussed in a later paragraph.

Card holders' opinions on bank cards. In order to determine why

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Table 10

Purchases Made with Bank Cards

<table>
<thead>
<tr>
<th>Purchasing Category</th>
<th>Number</th>
<th>Percentage of Total Respondents (203)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing</td>
<td>60</td>
<td>29.6</td>
</tr>
<tr>
<td>Furniture</td>
<td>9</td>
<td>4.4</td>
</tr>
<tr>
<td>Appliances</td>
<td>17</td>
<td>8.4</td>
</tr>
<tr>
<td>Other Items</td>
<td>42</td>
<td>20.7</td>
</tr>
<tr>
<td>Gasoline</td>
<td>61</td>
<td>30.0</td>
</tr>
<tr>
<td>Lodging</td>
<td>64</td>
<td>31.5</td>
</tr>
<tr>
<td>Meals</td>
<td>43</td>
<td>31.2</td>
</tr>
<tr>
<td>NOTHING</td>
<td>69</td>
<td>34.0</td>
</tr>
</tbody>
</table>
card holders did not use cards, a comparison was made between income and the reported likes and dislikes for bank cards and bank card plans. The first conclusion drawn related to income of card holders. Income was not a determinant of the likes and dislikes of bank card convenient credit. Over three-fourths of the respondents endorsed convenience as a bank card virtue. Other approved aspects of bank card use included the need to carry less cash and the desirability of having the card in an emergency.

Bank card credit was convenient and simple. This feature coupled with wide acceptability also made the card an ideal credit instrument for emergency use. Expressed appreciation of the lesser need for cash was also an indication that card users, particularly travelers, disliked carrying excess amounts of cash for use in emergency situations. These reasons offered a partial explanation for the rather large number of persons who kept bank cards but did not use them. Previously demonstrated was the fact that the greatest bank card use lay with travel-related purchases. Both the lessened need for cash and emergency use may have been related to travel. Apparently, travelers were the most frequent users of bank cards and appreciated them the most.

Card holders also were asked: "And is there anything you dislike about bank charge cards?" The answers were combined into seven categories:

1. Credit was too easy.
2. Cards were a nuisance.
3. Interest rate of revolving credit was too high.
4. Not enough establishments accepted bank cards.

5. Danger of loss or theft was great.

6. Statements were frequently in error.

7. Card was sent without a request.

Two complaints received the most response: the interest rate of revolving credit was too high, and credit was obtained too easily. Objection to the high interest rates substantially contributed to the infrequent use of revolving credit noted previously. The second objection referred to the lack of restraint imposed upon bank card users. Apparently, lack of formality and red tape were commendable as contributions to convenience, but the objection was that card holders were not restrained from the danger of overspending by a banker's scrutiny.

The complaint that bank card credit proved "too easy" was supported by testimony brought out during Senator Proxmire's Senate hearing on bank cards. The contention was made that many buyers expected the seller, or the lender, to provide the necessary credit restraint in order to prevent them from incurring debt beyond the ability to pay. An example of this expectation was illustrated by a bankruptcy that was cited by Daniel R. Cowans, a bankruptcy referee testifying before the Senate subcommittee.

The most enlightening example I have ever encountered occurred to me when I was practicing law. A couple came to see me to put them into bankruptcy. They both worked at somewhat menial jobs. They had the usual collection of bills but one unusual one. They had an electric organ which cost about $1100. Upon questioning them in my office, I asked a bit about the organ. Yes, they were fond of it. It made "nice music." I found that they had purchased it when they already had quite a load of
obligations. I asked why they had purchased the organ if they were already in financial difficulty. The husband turned to me somewhat in anger and blurted out: "If I couldn't afford it, why did they let me have it?" My training being what it was, I was surprised but succeeding years have taught me how prevalent this attitude is.10

Both the high interest rate and the lack of credit restraint were, perhaps, contributing factors to the infrequent use of revolving credit. Card users' dislike of high interest rates had been noted; they, possibly, reasoned that lack of restraint allowed them to become too early involved with revolving credit and the accompanying high interest.

Approximately 10 percent of the respondents feared the danger of theft and fraud; a like number complained of statements in error. Without verified figures to compare, to draw positive conclusions was difficult. However, if the 10 percent who complained had also received incorrect statements, then the percentage of error appeared to be inordinately high. On the other hand, common sense dictated that the error was cumulative having accrued for over two years. In this case, to arrive at any valid conclusions in reference to frequency of errors on bank card statements was impossible.

Emergency use of bank cards. Questionnaire recipients were asked if they ever had used their bank cards during an emergency and what the nature of the emergency was. Answers were combined into the

following categories:

1. Cashed checks when other identification was unacceptable.
2. Used card in lieu of personal check.
3. Had neither cash nor checkbook.
4. Used card in lieu of cash when traveling.
5. Kept card for an emergency.
6. Used card rather than borrow from another source.

Forty-eight persons, or 27.6 percent of the 174 respondents, indicated use of the bank card during an emergency. This number appeared to be a small percentage, but when the frequency of emergencies was considered, any conclusion became uncertain. Some persons were confronted with more emergency situations than others were; some planned more carefully; others were, perhaps, accident prone. In any case, 27.6 percent did not emerge clearly as either a high percentage of emergency use nor a low one.

Category 4 received the largest response and was an indication that most emergency use involved travel. While respondents considered use of their cards to be an emergency, use frequently was not demanded by necessity but was the result of impromptu purchasing or indulgence of desires.

Several persons stated that cards were used when funds were depleted during vacation travel. Others indicated emergencies resulting from accidents, unforeseen auto repairs, or sudden illnesses. However, many resorted to bank cards when cash was exhausted rather than cutting short a vacation. Some used cards to extend the term of vacations or to extend the distance traveled. Consequently, many
reported emergencies were not, in the truest interpretation of the word, emergencies.

Business travel accounted for many emergencies. A man ruined a suit and used his card to buy another. Several persons were stranded because of inclement weather and used cards for lodging and meals. One individual entertained a group of customers and paid his bill with a bank card. Regardless, whether the emergency occurred as a business expense or as a recreation item, it was a situation where cash was not available and a bank card was substituted.

Category 5--"Kept the card for an emergency"—was not actually an emergency but it categorized the fortunates who had not been beset by an emergency. These persons were prepared to use cards during an emergency, and many indicated retention of cards for emergencies only.

Cashing checks through bank cards was a use of some significance as was using the card rather than borrowing from another source. Where cards were presented in lieu of loans, a possibility existed that the persons knew of insufficient funds and substituted bank cards rather than to borrow from another source.

When the consideration was made that bank cards were intended to take the place of cash or checks for normal, everyday shopping, the retention of bank cards for emergency purposes gave the cards a new significance. In practice, they became a substitute for loans from other agencies. However, this practice was not unexpected as many banks preferred to have small loan applicants apply for a bank card.
and thus obtained a cash advance in lieu of a loan of $200 or $500.11

Apparently, bank cards were creating changes affecting small loans, as yet no extensive changes, nor was such to be expected until the credit limits of bank cards were raised. Nevertheless, any shift from past procedures ought to be given some significance, as it might represent the beginning of a trend of future importance.

Bank card influence on buying habits. Questions were designed to determine the influence bank cards had on the shopping and on the financing habits of bank card users. There were questions 15, 15a, and 15b; question 15 asked: "Since obtaining your bank charge card, do you think you shop in different stores than you did before you had the card?"; 15a inquired: "And do you now shop less in stores that will not accept your bank charge card?"; the last question, 15b, was: "If you have a department store card, do you use it less since obtaining your bank charge card?"

Of the 178 respondents answering question 15, only 18 indicated a shift in store selection. None of these 18 persons had other credit cards. On the other hand, only 13 of the 158 persons who had not changed had other credit cards. Consequently, possession of other credit cards did not appear to influence shopping habits. Answers to questions 15a and 15b were similar and indicated that little change had occurred. A token percentage of bank card holders had changed shipping procedures

but were too few to be of any significance.

The lack of opportunities for shoppers in Montana was one reason that more bank card holders had not been influenced by their cards. Montana's five largest cities—Great Falls, Billings, Missoula, Butte, and Helena—represented the shopping centers offering opportunities to shop in varied establishments. However, these cities did not offer the extensive selection of shopping opportunities available to residents of nearby cities—Denver, Spokane, and Salt Lake City.

Forty-two percent of the respondents to this survey lived in towns of less than 15,000 population, and a majority of that 42 percent lived in towns with less than 7,000 inhabitants. Clearly Montanans lacked opportunities to shop in a wide variety of stores.

People from smaller towns habitually shopped in certain stores, perhaps, because they were the only stores carrying the desired goods, and the same stores had installed bank cards, thereby eliminating any reason to change to a different establishment. Few stores in small towns ever offered individual credit cards but did have some form of credit available for regular customers. Irrespective of bank card possession, these persons had no incentive to change.

Some department stores in Montana have not installed bank cards but continue to accept only their own charge plates. Two notable firms were the Montana Mercantile in Missoula and Hart-Albin in Billings. These independents did not represent a significant portion of the available shopping opportunities but were, probably, prestigious enough to retain the loyalty of customers although the customer obtained a bank card. In some instances, these stores offered the only source
of particular brands of clothing and other merchandise.

A striking contrast to the shopping situation in Montana was presented by a city the size of Denver. Where a shopper was confronted with numerous stores stocking comparable merchandise, the acceptability of bank cards becomes more important. In this situation, shoppers with bank cards were expected to shop more readily in stores that accepted bank cards rather than in stores where they were unable to charge purchases.

No significant changes occurred in the stores where card holders shopped nor had they changed methods of financing purchases. However, certain areas of bank card use did hold possibilities for expansion, but predictions were no more than speculations. The conclusions presented in this chapter were developed in more detail in Chapter 5.
Chapter 5

CONCLUSIONS

As stated in Chapter 1, the study was designed to determine the effect of bank charge cards on the shopping and financing habits of Montana consumers. In order to ascertain that effect, other pertinent information relating to bank cards was necessarily obtained. Sufficient evidence was obtained to form conclusions in the following areas:

1. The characteristics of Montana bank card holders.
2. The effects of unsolicited bank cards on low income families' use of credit.
3. Changes in the shopping and financing habits of card holders.
4. Reasons that Montanans like or dislike bank cards.
5. The primary areas of bank card use and the frequency thereof.

The previously noted Federal Reserve report on bank cards called them a "middle income phenomenon." In agreement was Patterson's study which found that the majority of the card holders surveyed to be between the ages of 30 and 59 years; their incomes were

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between $5,000 and $14,999.\footnote{H. R. Patterson, "A Study of Charge Account Banking and Its Financial Performance" (unpublished Doctor's dissertation, Michigan State University, 1963), pp. 42, 46.}

By comparing age and income characteristics of Montana card holders, this study concurred with both previously noted reports. As described in Chapter 4, the majority of card-holding Montanans were between the ages of 34 and 57 years. Of this group, incomes fell between $7,000 and $24,999. The slight difference of ages and of incomes shown by this study and by that of Patterson was attributed to the slightly different age classes used by both studies; income variation was, perhaps, the result of seven years of inflation as Patterson's study was completed in 1963.

Minor variations notwithstanding, the conclusion was made that bank card holders in Montana belonged to a group which might be classed as "middle-age and middle-income." The extremes of youth and of age were found to have low incomes (under $6,999) and displayed less inclination to keep and to use bank cards.

Some other characteristics of card holders, determined from the previously cited Crosstabs analysis, were that the majority owned their own homes and that the majority made monthly payments on their dwellings. Furthermore, they had extensive, previous credit experience and possessed other credit cards. Those individuals without bank cards differed but slightly. Fewer owned their dwellings and were less likely to be making dwelling payments. In addition, not as many had other credit cards. Most of these variations were attributed to the pre-
viously noted differences in age and in income.

EFFECTS OF UNSOLICITED BANK CARDS

The United States Senate Subcommittee on Financial Institutions conducted hearings on credit cards. Among the topics discussed was the possibility that unsolicited bank cards were causing poor families—considered lacking in credit experience—to assume excessive debt because of the limited restrictions on bank card credit. This study investigated such influence in Montana but found no evidence that low income families were being overly influenced by the easily obtained credit bank cards.

Persons responding to this study who had annual incomes of less than $5,000 retained a smaller percentage of bank cards than did those with higher incomes. Admittedly, the difference was not great. However, the low income group exhibited a minute percentage of revolving credit use; this very aspect of credit card use might create a financial burden. Few low income respondents voiced any dislike for bank cards, yet Crosstabs revealed a reluctance to use such cards. However, Crosstabs analysis of income and credit experience revealed a high degree of previous credit experience among low income persons.

In conclusion, low income families exhibited no tendency toward irresponsible use of bank cards. They appeared to be well aware of the hazards of easy credit and were avoiding the temptations of unsolicited cards.

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Changes in shopping and financing habits. When the study was undertaken, the supposition was made that bank cards had created significant changes in consumers' shopping habits and sources of financing purchases. Surprisingly, no significant change occurred. Only 18 persons indicated that they shopped regularly in different stores since obtaining bank cards. Possession of a bank card or sources of bank card acceptance did not influence shopping habits to any significant extent. Between 12 and 15 persons noted on the questionnaire any change in shopping habits or financing habits. When asked to describe the changes, none of the respondents offered any answer. Another question inquired if they were using department store cards less since obtaining bank cards. Twenty respondents, representing 13 percent of the sample, indicated a reduction in department store card use. Only five said that they had purchased a major item, which conceivably required installment financing, with a bank card.

Some reasons for the absence of changes were deducted from the general characteristics of Montana. Basically a rural state without really large urban areas, Montanans were not offered a sufficiently numerous selection of shopping opportunities for bank card holders to change shopping habits. Even residents of the five major cities—Billings, Butte, Helena, Great Falls, and Missoula—were not given the incentive to change shopping habits presented by a city the size of Denver. Regardless of bank card acceptance, Montana shoppers frequented the same establishments because they were the only ones available.

Changes in financing habits had not occurred because bank card
interest rates were generally higher than financing charges of department stores or installment credit obtained from a bank. Most of the shoppers were fully aware of the high interest rates charged by bank card revolving credit. Only 11 of 177 respondents did not know the annual percentage of bank card interest rates.

The characteristics of Montana residents were offered as yet another possible reason for lack of change. Examination of Montana newspapers and political campaigns quickly revealed the conservative thinking of Montanans. The observation was made that most were reluctant to accept changes of any sort. Since bank cards had been in evidence for no more than two and one-half years, they had not been fully accepted as a credit instrument. This supposition was not supported by factual evidence that was presentable in statistical form, but many persons indicated by their responses to the survey a definite suspicion of bank cards.

Reasons for likes and dislikes of bank cards. This section represented opinion, not statistical evidence, but did provide some insight into the previously presented conclusions. The survey found many objections to high interest rates. Equally objectionable was the lack of restriction on bank card use. Holders objected to "easy credit." Difficult to classify was the objection to unsolicited cards. Some persons readily stated that the cards ought not to be sent without a request while others were not so definite voicing a vague, "I don't like it," or "There are too many credit cards." Even though these answers lacked the precision desired, they definitely conveyed an impression which could only be interpreted as a dislike for bank cards.
Despite numerous complaints, a remarkable 77 percent of card holders liked the convenient credit offered by their cards. Most people favored the "ease of use" of bank cards as well as desirability as an emergency source of credit.

These opinions were difficult to evaluate; nevertheless, they ought not be ignored. The objection to "easy credit" was interpreted as a dislike of the lack of restriction on bank card credit. The assumption of debt was too easy. Some people favored a reduced need to carry cash. This opinion appeared related to the substitution of bank cards for cash during emergencies. Obviously, any emergency source of credit ought to be "easy to use" or "convenient" which were noted previously as virtues of bank cards.

Areas of Use and Frequency

The frequency of bank card use and area of use were intertwined closely with other sections of this study. When respondents were asked what they purchased with bank cards, the revelation was made that over 34 percent of the card holders did not use them. The three most numerous areas of actual use were purchase of gasoline, lodging, and meals. Consequently, the conclusion was made that bank card use in Montana was the most frequent among travelers. Those persons who did not use the card were undoubtedly among the group keeping it for an emergency. Also, most emergency use was due to unforeseen circumstances occurring during travel. When the number of answers indicating nonuse or emergency use only were combined, obviously, bank cards had become emergency travel cards. Travel expense constituted the most frequent use of bank cards. Two hundred three persons answered the
question: "What have you purchased with your bank charge card?" About 27 percent utilized the card to make travel-associated purchases. When inquiry was made about emergency use, 176 people responded; 49 had used the card during emergencies. Individual answers revealed most emergencies occurred during travel. The 49 people affirming emergency use were also 27 percent of the respondents to the question. The equal percentages of travel-associated purchases and emergency use proved a coincidence. However, emergency use during travel undoubtedly involved the purchase of gasoline, lodging, and meals. Consequently, the frequency of travel-associated purchases might not be as frequent as indicated previously.

No question was asked about the frequency of bank card use. The omission was unfortunate as bank cards might prove to be used infrequently. Support for this assumption was obtained from the reported lack of revolving credit use, the number of people indicating no card use and the significant percentage using the card for travel expenses and emergencies only.

This evidence also led to the assumption that the dollar volume of bank card use might not be significant. Of course, volume (measured by dollars) ought to be the most valid indication of extensive bank card use. One fact became clear: a high percentage of Montanans retained bank cards but did not use them regularly.

In summary, findings indicated the lack of bank card influence in Montana. Poor families were not being lured into debt and little use of revolving credit was made. The greatest significance of bank cards was, perhaps, retention as a source of emergency funds. Par-
particularly significant was the conclusion: over 70 percent of all bank card recipients retained the card but few used such cards regularly.

Some changes were wrought by bank cards. For example, they substituted for emergency loans and a few people utilized them during regular shopping. The greatest area of use lay with travel-associated expenses. However, bank cards had not made extensive inroads into other forms of installment credit nor had they supplemented banks and other lending agencies as sources of personal credit. They had not become the replacement for cash and for personal checks which was envisioned by bank card promoters.

The future of bank cards remains unpredictable. Banks are unlikely to abandon bank card plans in the immediate future, but bank cards owed their existence to a highly consumptive society and required high levels of personal spending to survive. Future expansion of both bank card plans and bank card use depends upon the state of the economy and the growth of personal income. Until now, the plastic credit represented by bank charge cards has not seriously affected the use of cash by Montanans.
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APPENDIX A

BANK CHARGE CARD STUDY

CONFIDENTIAL QUESTIONNAIRE

We would like the head of the household to answer the following questions. Please complete the entire questionnaire. ALL ANSWERS will be kept STRICTLY CONFIDENTIAL—no names or other identifying information are requested—and your cooperation will be greatly appreciated.

1. What is your age? (Please check the appropriate age group.)
   
   18-25 ______
   26-33 ______
   34-41 ______
   42-49 ______
   50-57 ______
   58-65 ______
   Over 66 ______

  1a. And what is your sex?
     Male ______
     Female ______

  1b. What is your marital status?
     Married ______
     Divorced ______
     Single ______
     Separated ______

2. Do you have any dependents? Yes _____ No _____
   Children _____(number), Spouse _____ Other _____(number)

3. Are you employed? Yes _____ No _____
   3a. IF YES, what is your occupation?

3b. If you are retired, how many years have you been retired? _____

4. If you are married, is your spouse employed?
   Yes _____ No _____
   4a. If your spouse is retired, how many years has he or she been retired? _____
5. What was the total annual income of your family for 1969? (Please check the appropriate category.)

a. Less than $3,000
b. $3,000-3,999
c. $4,000-4,999
d. $5,000-6,999
e. $7,000-9,999
f. $10,000-14,999
g. $15,000-24,999
h. $25,000 or more

6. Do you own your own home or are you renting?

Own home ____ Rent ____

Other ____ (Please explain) ________________________

6a. And are you making monthly payments on your dwelling?

Yes ____ Amount $ ____ No ____

7. Have you ever borrowed any money for personal use?

Yes ____ No ____

7a. IF YES, who was the lender?

Bank ____ Savings and loan association ____
Finance Company ____ Relative or friend ____
Credit union ____ Other ____ (Please explain)
Insurance company __________________________

8. Do you have any debts outstanding which require periodic payments?

Yes ____ No ____

8a. IF YES, what was your source of credit?

Home mortgage ____ Bank charge card account ____
Auto financing ____ Store charge account ____
Bank loan ____
Other ____ (Please explain) ________________________
9. Have you ever had a BANK CHARGE CARD? Yes ______ No ______

9a. IF YES, what kind was it or is it?

Mastercharge ______
BankAmericard ______

9b. And how was it obtained?

(1) I applied for it. Mastercharge ______ BankAmericard ______
(2) Bank sent card without an application. Mastercharge ______ BankAmericard ______
(3) Obtained card by another method (please explain) __________________________

10. Do you have any other credit cards? Yes ______ No ______

10a. IF YES, which kinds do you have?

Department store ______ Carte blanche ______
American express ______ Airline ______
Gasoline company ______ Other ______ (please explain) ______

11. If you have a DEPARTMENT STORE CARD; how long have you had it?
(please estimate if you do not know exactly) __________________________

11a. If you have a DEPARTMENT STORE CARD, what purchases do you make with it?

Clothing ______ Major Appliances ______
Furniture ______ Other ______ (please explain) ______

12. Do you still have a BANK CHARGE CARD? Yes ______ No ______

IF YES, SKIP TO QUESTION 13.

12a. IF NO, what did you do with the card?

I destroyed it ______ I returned it ______ Other ______ (Please explain) __________________________

IF YOU ANSWERED NO TO QUESTION 12 a, PLEASE STOP HERE! You need not answer the remaining questions as they do not apply to your situation. Please use the enclosed postage-paid, self-addressed envelope which has been provided for your convenience in returning the completed questionnaire. Thank you—your cooperation is greatly appreciated.
13. How long have you had your BANK CHARGE CARD?

<table>
<thead>
<tr>
<th>Mastercharge</th>
<th>BankAmericard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 6 months</td>
<td></td>
</tr>
<tr>
<td>6 to 12 months</td>
<td></td>
</tr>
<tr>
<td>1 year to 2 years</td>
<td></td>
</tr>
<tr>
<td>Over 2 years</td>
<td></td>
</tr>
</tbody>
</table>

14. What have you purchased with your BANK CHARGE CARD?

- Clothing _   |
- Gasoline _   |
- Furniture _   |
- Lodging _   |
- Appliances _   |
- Restaurant meals _   |
- Other _ (Please explain) ____________________________

15. Since obtaining your BANK CHARGE CARD, do you think you shop in different stores than you did before you had the card?

Yes ___________ No ___________

15a. And do you now shop less in stores that will not accept your BANK CHARGE CARD?

Yes ___________ No ___________

15b. If you have a DEPARTMENT STORE CARD, do you use it less since obtaining your BANK CHARGE CARD?

Yes ___________ No ___________

16. Have you ever purchased a major item (like a television, stove, refrigerator, etc.) with your BANK CHARGE CARD that you might have otherwise financed through a loan or finance company, a bank or other lending agency?

Yes ___________ No ___________

17. Do you use the monthly payment plan with your BANK CHARGE CARD?

Yes ___________ No ___________

17a. IF YES, what is the monthly interest rate? ________ percent
Or don't know ___________
18. Do you like the convenient credit offered by your BANK CHARGE CARD?

   Yes _____  No _____

   Please explain the reasons for your answer ____________________________

   ____________________________

   ____________________________

   ____________________________

   18a. And is there anything you dislike about BANK CHARGE CARDS? why?

   ____________________________

   ____________________________

   ____________________________

19. Has your BANK CHARGE CARD changed your shopping habits in any way

   (please explain? ____________________________

   ____________________________

   ____________________________

20. Has your BANK CHARGE CARD changed your method of financing purchases in any way? (please explain)

   ____________________________

   ____________________________

   ____________________________

21. Have you ever used your BANK CHARGE CARD in an emergency, when you were without cash and personal checks were not accepted?

   Yes _____  No _____

   21a. IF YES, please explain ____________________________

   ____________________________

   ____________________________

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE. YOUR COOPERATION IS GREATLY APPRECIATED. WE HAVE ENCLOSED A POSTAGE-PAID, SELF- Addressed ENVELOPE FOR YOUR CONVENIENCE IN RETURNING THE COMPLETED QUESTIONNAIRE TO US. THANK YOU FOR YOUR ASSISTANCE IN OUR STUDY.
You may have noticed an article in your local newspaper concerning a study of charge account banking being conducted at the University of Montana; the questionnaire which accompanies this letter is a vital part of this study.

You have been included in a sample encompassing the entire state. To make our findings and conclusions complete and accurate, we need your answers and opinion.

The questionnaire will be held in strict confidence and we do not wish to have you identify yourself on the questionnaire. Your answers will appear as part of a composite group and there will be no way to identify individual answers to any question.

For us to complete this study at the earliest possible date, I urge you to complete the questionnaire and return it in the enclosed envelope by July 7, 1970.

I earnestly request your sincere cooperation. Thank you very much.

Respectfully yours,

Rudyard B. Goode
Dean, School of Business Administration