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# When Were Credit Cards Invented? A Complete History

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The birthdate of the credit card ultimately depends upon your definition of the product. American merchants in the 1800's extended credit to trusted customers, enabling them to pay at a later date – often timed with things like crop yields. Coins and markers were even used in the process, typically noting the consumer's account number and the merchant's name.

Then, in the early 1900's, a handful of U.S. department stores and oil companies began issuing their own credit cards – the forbearers to modern [store cards](#) – that were only useable at the particular business that issued them.

Next came the “Charg-It” card – issued by Brooklyn, New York-based Biggins Bank. While its use was restricted to local merchants, this card established a system whereby a bank would pay merchants for purchased made by an accountholder, who would then reimburse the bank at the end of the month. After that followed the introduction of the Diners Club and American Express charge cards in 1951 and 1958, respectively. These cards were limited to travel and entertainment purchases and their bills had to be paid in full each month. Amex was also the first issuer to offer a plastic card, beginning in 1959 – the same year the concept of revolving a balance from month to month was introduced.

Finally, in 1966, Bank of America launched the first general-purpose credit card: the BankAmericard – forerunner to what is now VISA. To learn more about what this first card had to offer as well as how the credit card market has evolved in the decades since, continue reading below.

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## History Of Credit Cards: Annotated Timeline

Credit cards have a long and storied history, as you now know. But the above merely represents the 3,000 foot view of the early years. For a complete look at the major milestones in the history of credit cards, check out the following timeline.

**1850:** American Express is founded (as a competitor to the U.S. Postal Service).

**1887:** Edward Bellamy coins the term “credit card” in his novel, “Looking Backward.”

**Late 1800s:** Credit accounts are regularly used by merchants with trusted customers.

**Early 1900’s:** Oil companies & department stores use first store credit cards.

- 1946:** Biggins Bank introduces the Charg-It card, to be used at Brooklyn merchants.
- 1950:** Frank McNamara launches the Diners Club charge card after forgetting his wallet when out to eat.
- 1958:** American Express launches its first charge card.
- 1958:** VISA is founded under the BankAmericard brand name.
- 1959:** Revolving credit card balances are first allowed.
- 1960:** IBM introduces magnetic stripe verification to credit cards.
- 1966:** BankAmericard becomes the first general-purpose credit card.
- 1966:** MasterCard is founded as a collection of California banks.
- 1968:** The Truth In Lending Act takes effect, requiring account terms to be clearly disclosed in a standardized manner.
- 1970:** The Fair Credit Reporting Act is implemented, reforming the collection and use of credit report data.
- 1970:** The Unsolicited Credit Card Act of 1970 prohibits credit card companies from sending active cards to pre-approved candidates who had not approved for them.
- 1974:** The Fair Credit Billing Act amends the Truth In Lending Act to prohibit certain unfair billing practices and enabling consumers to dispute billing errors.
- 1977:** The Fair Debt Collection Practices Act is approved as an amendment to the Consumer Credit Protection Act, prohibiting predatory debt collection measures and overhauling the [debtor's bill of rights](#).
- 1977:** Citibank announces the Choice Card – one of the first cards with a cash refund and no annual fee
- 1978:** In *Marquette National Bank v. First of Omaha*, the Supreme Court allows nationally-chartered banks to offer interest rates allowed by local laws in the states in which they are headquartered to consumers across the country, regardless of whether other individual states prohibit interest rates above a certain amount, for example.
- 1980:** The Depository Institutions Deregulation and Monetary Control Act gives state-chartered banks the ability to “export” interest rates as well.

**1985:** Discover is founded as a subsidiary of Sears

**1996:** In *Smiley v. Citibank*, the Supreme Court rules that credit card fees are considered to be interest and can thus be “exported” along with interest rates.

**1996:** Sergey Brin and Larry Page use a credit card to initially fund Google

**1999:** American Express launches the Blue Card – one of the first credit cards with an embedded computer chip.

**1999:** Kai and Charles Huang use credit to fund RedOctane, the developer of Guitar Hero

**2002:** Sam Jain uses his personal credit card to fund Fareportal, operator of CheapOair

**2005 – 2006:** Up to 94 million credit and debit card account numbers stolen from TJX

**2008:** CardHub launches, clearly changing the credit card world forever! J

**May 22, 2009:** Barack Obama signs into law the Credit Card Accountability Responsibility and Disclosure Act of 2009 ([CARD Act](#))

**Feb. 22, 2010:** The CARD Act goes into effect, dramatically overhauling the [Consumer Bill of Rights](#)

**Oct. 2010:** The Durbin Amendment takes effect, effectively killing debit card rewards and giving credit cards added market share

**Nov. 2010:** Federal Reserve closes notable loopholes in CARD Act

**Dec. 2013:** VISA and MasterCard reach a \$6 billion settlement with a group of major retailers for alleged collusion in the setting of interchange fees

**Dec. 2013:** 40 million credit and debit card account numbers stolen from Target

**2014:** 56 million credit and debit card account numbers stolen from Home Depot

**Oct. 2014:** Apple Pay becomes the first mainstream mobile payment technology

**Oct. 2015:** Liability shift deadlines set by VISA and MasterCard, spurring the transition to EMV payment technology

## Credit Card Predecessors: A Closer Look At Plastic's Early

## Ancestors

The nature of credit clearly has evolved a great deal over time, from a courtesy offered by local merchants to customers they knew well to big business with consequences that are hard to escape from. Below we'll explore the forbearers of the modern credit card system in a bit more detail.

### ***Book Credit:***

The earliest forms of credit were used on a far smaller scale than even the medallions later issued by oil companies and large department stores, which required account numbers and carefully grafted metal tokens for purchase verification.

Rather, these early forms of credit involved transactions being listed in a ledger and then being paid off in bulk when the customer has the funds available – often timed with the seasonality of our agricultural economy. Like modern credit cards, these credit accounts had spending limits that varied in accordance with the merchant's familiarity with the particular patron.

### ***Charge-Plates & Coins:***

As U.S. commerce grew increasingly mass-market, large companies with sizeable customer bases began issuing special metal plates and coins, emblazoned with the business's logo and the customer's account number. This made accounting far easier for the companies employing the process.

Repayment procedures were likely more organized than book credit accounts, probably requiring more consistent repayment and less leeway for customers who were late with funds.

### ***Debtor's Prisons:***

While the court system was tasked with handling cases of unpaid debts, as is the case today, the penal system of yesteryear employed so-called debtor's prisons where people were actually incarcerated for amounts owed. The United States outlawed debtor's prisons at the federal level in 1833, and 12 states did so between 1821 and 1849.

And while many people assume that debtor's prisons are a crass relic of more primitive times, they still exist today despite a number of landmark Supreme Court rulings taking blows at their constitutionality. The 1970 case *Williams vs. Illinois* found that statutory maximum prison terms cannot be extended because the defendant is unable to pay court fines. *Tate v. Short*, in 1971, determined that one cannot be jailed simply because they are too poor to pay a fine.

Then, in 1983, *Bearden v. Georgia* gave local judges the power to distinguish between debtors who are too poor to pay fines and those who have the ability to do so but refuse.

With this context in mind, it is important to note that defendants in all 50 states as well as the District of Columbia are now charged for a wide range of one-free services, many of which we're constitutionally entitled to. This, in many cases, includes room and board in prison, ankle bracelet monitors, parole supervision and – in 43 states – a public defender. Failure to repay these expenses, which often amount to thousands of dollars, can lead to extended incarceration. The government and financial institutions have a number of other weapons to use against people who owe money as well – including wage garnishment, tax liens and you can extensive credit score damage.

## The First Credit Cards: Looking Back To See How Far We've Come

Perhaps the most notable introductions to the early credit card markets were the Diner's Club charge card and the BankAmericard general-use credit card. Given their historical significance, we felt it important to take a closer look at these offers and see how they compare to the cards we now have in our wallets.



**Diner's Club Card:** Diner's Club was launched with a \$1.5 million investment, and its paper cards were accepted at 27 New York City restaurants by roughly 200 friends and family members of founder Frank McNamara. Users were required to pay their full bill at the end of the month in order to continue using them, as is still the case with charge cards – such as popular offers issued by

American Express.

By 1951, Diners Club had roughly 42,000 members and had begun charging a \$5 annual fee. Diners Club offered its first plastic credit card in 1961 and surpassed 1 million members in the early 60's. The company was acquired by Citigroup in 1981 and Discover Financial Services in 2008.



**BankAmericard:** In September 1958, Bank of America invented credit card mass-mailing, sending 60,000 unsolicited active cards to consumers in the Fresno, California area. The next year, the company expanded to the San Francisco, Sacramento and Los Angeles markets – ultimately dispersing more than two million cards – usable at over 20,000 merchants – across the states.

But while Bank of America expected that roughly 4% of accounts would prove to be

delinquent on payment, the actual figure was actually around 22%. That, coupled with public outrage over the fact that cardholders would be held responsible for unauthorized charges, ultimately led to the company losing an estimated \$20 million on this initial launch.

BankAmericard persevered, however, expanding nationally through a series of licensing agreements and continuing the practice of mailing unrequested cards to consumers until it was banned in 1970.

## Consumers & Credit Cards: Inside Our Love Affair

Credit cards have not always been our de facto form of payment. However, they have enjoyed rather meteoric growth since they were first introduced as a means for high-earners to conveniently pay for dining, travel and entertainment. Three aspects of the credit card industry in particular have matured significantly over time: 1) the use of bank credit cards; 2) credit cards for low income groups; and 3) our reliance on debt.

While 51% of households had a credit card in 1970, only 16% had a bank-issued card. And an even lower percentage of people in the lowest income bracket (2%) were using bank cards at the time. But the overall rate of households with credit cards had risen 38% to 2007 (70.2%). bank-issued card ownership increased more than threefold in the next 28 years, while low-income card use grew 13-times over.

In other words, the early credit card market was characterized by a number of disjointed new entrants catering to specific niches and geographical locations. It wasn't until BankAmericard became the first general-purpose credit card in 1966 and the federal government instituted a number of important industry safeguards in the 70's that the market truly began to take off.

Our perception of debt clearly has changed as well. Only 6% of U.S. families had a bank-issued credit card with a revolving balance in 1970, but that figure ultimately rose 37% by 1995 – where it has held relatively steady. Even more worrisome, revolving non-mortgage debt (e.g. credit cards, auto loans and student loans) increased an astounding 31,200% from 1968 to 2000. And, credit card debt, in particular, rose 235% from 1990 to 2010.

We now owe more than \$831 billion to credit card companies, or a bit over \$7,000 per household with a credit card. And we have MasterCard – the father of the revolving credit card balance – and the simplicity of modern payment systems to thank for this, at least in part.

Finally, it's important to note television's role in the societal immersion of both bank-issued credit cards and credit card debt. From early Amex ads featuring the likes of Jerry Seinfeld to Capital One's wildly popular "No Hassle" campaigns, TV has taken the credit card

mainstream – helping contribute to the social cache associated with plastic.

## Ask The Experts: Credit Cards Of The Future

1. Will credit cards be used 15 or 20 years from now? In what form?
2. How long do you anticipate credit cards being the dominant form of payment?
3. How has the rise of credit cards changed consumer spending habits – for better or worse? And what impact do you think market changes over the next decade-plus will have?

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### Richard Toler

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#### **Will credit cards be used 15 or 20 years from now? In what form?**

I do not believe credit cards will be used 15 years from now. Credit cards will be replaced with some type of biometric identification system that will be more difficult to hack. A rapid fingerprint, retinal scan or DNA identification system would not be impossible.

#### **How long do you anticipate credit cards being the dominant form of payment?**

Credit cards will dominate the financial payment system for no more than another five years. After that some type of biometric system will begin to gain market share.

#### **How has the rise of credit cards changed consumer spending habits - for better or worse? And what impact do you think market changes over the next decade-plus will have?**

Credit cards make it easier to spend money. Consumers think less about the amount they are spending if they pay with credit card. It is less emotionally stressful to hand over a credit card than to watch your cash disappear from your wallet. With a credit card your ability to spend doesn't seem to diminish. The benefit of credit cards is the data available to the vendor, which can provide a wealth of information about consumer demographics and behavior. More needs to be done to provide analytical tools to help consumers analyze their spending habits.