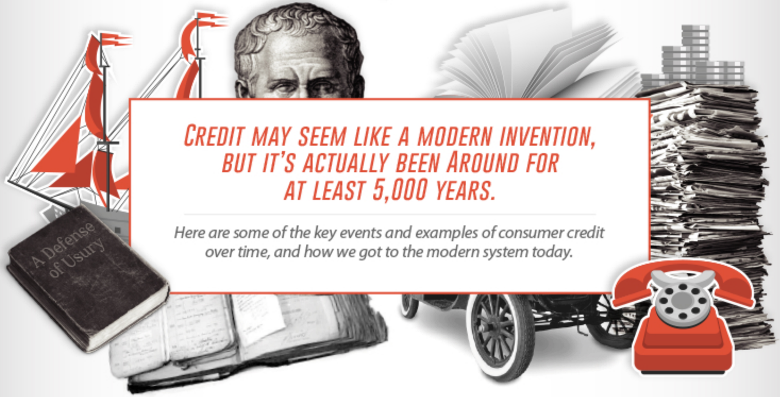
THE HISTORY OF

CONSUMER CREDIT

Today,credit is everywhere.

Consumers rely on credit to buy homes, autos, and goods...



CREDIT MAY SEEM LIKE A MODERN INVENTION, BUT IT'S ACTUALLY BEEN AROUND FOR AT LEAST 5,000 YEARS.

Here are some of the key events and examples of consumer credit over time, and how we got to the modern system today.

Timeline

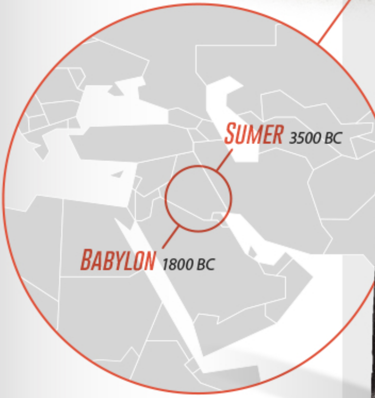
CREDIT IN ANTIQUITY

Sumer

3500 BC

Sumer is the first urban civilization with about **89% of its population living in cities.**

It is thought that consumer loans for agricultural purposes are first used here.



Babylon

1800 BC

The Code of Hammurabi is written, formalizing the first known laws around credit. Hammurabi establishes the maximum interest rates that can be used legally:

On loans of grain, the ceiling is **33.3% per year**

On loans of silver, the ceiling is **20% per year**

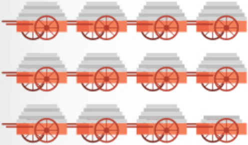
To be valid, loans have to be witnessed by a public official and recorded as a contract.

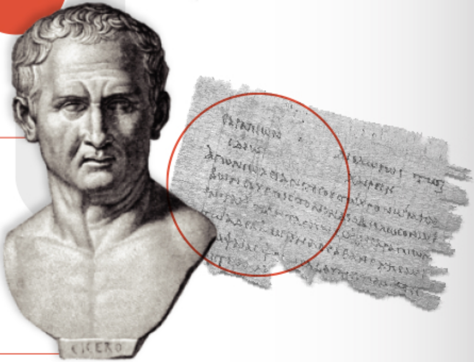
THE Roman Republic

50 BC

Around this time, Cicero notes that his neighbor bought 625 acres of land for 11.5 million sesterces.

Did they literally carry 11.5 tons of coins through the streets of Rome?





No, it was done through credit and paper. Cicero writes "nomina facit, negotium conficit" – or, "he uses credit to complete the purchase."

Moral Concerns

ABOUT LENDING

800 AD

THE Dark Ages IN EUROPE

After the collapse of the Western Roman Empire, economic activity grinds to a halt.

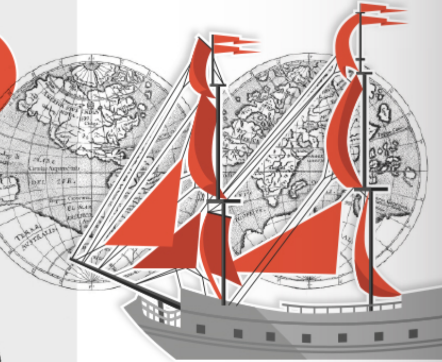
The Church bans usury – the practice of charging interest on loans – for all laymen under Charlemagne's rule (768-814 AD).

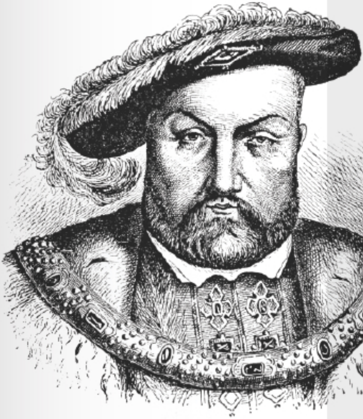
"...lend, expecting nothing in return"
-Luke 6:35

1500

THE Age of Discovery

As European explorers and merchants begin trade missions to faraway lands, the need for capital and credit increases.





1545

England

After the Reformation, the first country to establish a legal rate of interest is England in 1545, during the reign of Henry VIII. **The rate is set at 10%.**

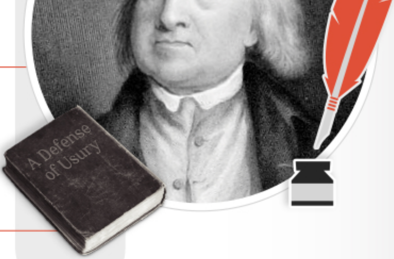
England

1787

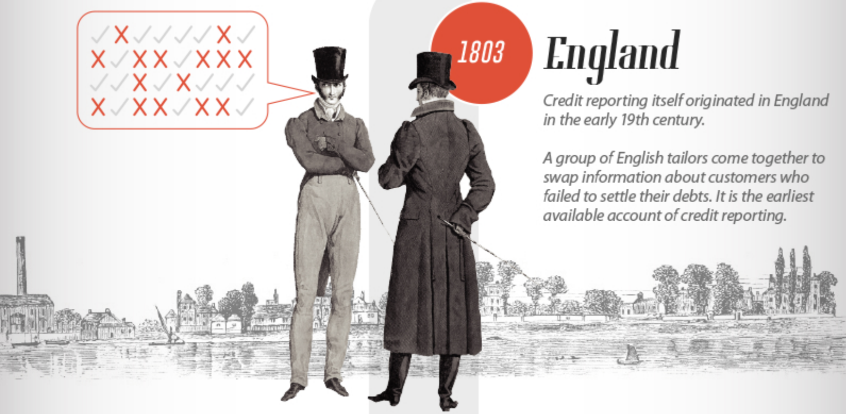
Philosopher Jeremy Bentham writes a treatise called **"A Defense of Usury,"**

arguing that restrictions on interest rates harm the ability to raise capital for innovation.

If risky, new ventures cannot be funded, then growth becomes limited.



THE BIRTH OF
Modern Consumer Credit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1803

England

Credit reporting itself originated in England in the early 19th century.

A group of English tailors come together to swap information about customers who failed to settle their debts. It is the earliest available account of credit reporting.

The Manchester Guardian

The Manchester Guardian.

England

1826

The Manchester Guardian Society *is formed and later begins issuing a monthly newsletter with information about people who fail to pay their debts.*

1864

New York

On the eve of the Civil War, ***R. G. Dun and Company – formerly known as The Mercantile Agency*** *– establishes an alphanumeric system for tracking the creditworthiness of companies. This system would remain in use until the twentieth century.*

Atlanta

1899

Retail Credit Company *is founded and begins compiling an extensive list of creditworthy customers.*

The company later changes its name to Equifax. Today, Equifax is the oldest of the three major credit agencies in the U.S.

CREDIT COMPANY
SERVICE

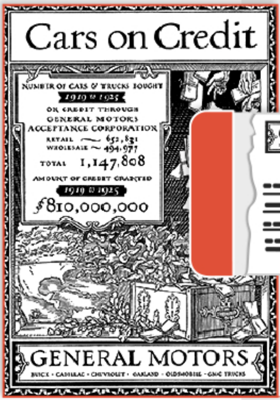
CONSUMER
Credit Boom

Detroit
1908

Henry Ford's Model T makes automobiles accessible to the "great multitude" of people, but they are still too expensive to buy with cash for most families.

1919
Detroit

GM solves this problem by loaning consumers the money they need to buy a new car.

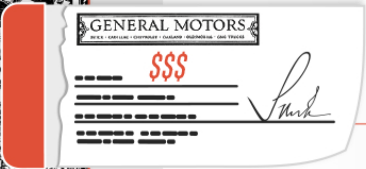


Cars on Credit

NUMBER OF CARS & TRUCKS BOUGHT
1919 to 1925
ON CREDIT THROUGH
GENERAL MOTORS
ACCEPTANCE CORPORATION
RETAIL ~ 652,831
WHOLESALE ~ 494,977
TOTAL 1,147,808

AMOUNT OF CREDIT GRANTED
1919 to 1925
$810,000,000

GENERAL MOTORS
BUICK · CADILLAC · CHEVROLET · OAKLAND · OLDSMOBILE · GMC TRUCKS



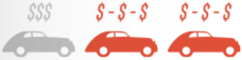
General Motors Acceptance Corporation *(GMAC) is founded and popularizes the idea of installment plan financing. Consumers can now get a new car with just a 35% downpayment at time of financing.*

USA

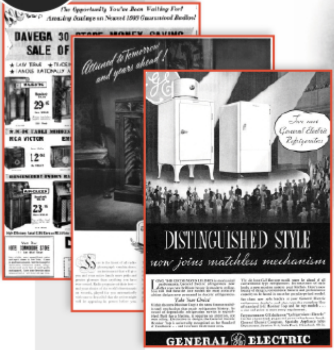
1930

Efficient U.S. factories are pumping out cheaper consumer products and appliances.

Following the lead of GM, now washing machines, furniture, refrigerators, phonographs, and radios can be bought on installment plans.

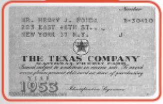


Also, by this time 2/3 of all autos are bought on installment plans.


The Opportunity You've Been Waiting For!
Amazing Savings on Newest 1939 Guaranteed Radios!
DAVEGA 30 STORE MONEY SAVING
SALE OF
RCA VICTOR
Attuned to Tomorrow and years ahead!
Two new General Electric Refrigerators
DISTINGUISHED STYLE
now joins matchless mechanism
GENERAL ELECTRIC

THE FIRST IN

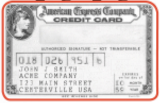
Big Data



MR. HENRY J. FONDA B-30410
223 EAST 48TH ST.
NEW YORK 17 N.Y. J

THE TEXAS COMPANY

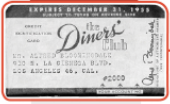
YEAR
1953



American Express Company
CREDIT CARD

AUTHORIZED SIGNATURE — NOT TRANSFERABLE

018 026 951 6
JOHN J SMITH
ACME COMPANY
123 MAIN STREET
CENTERVILLE USA



EXPIRES DECEMBER 31, 1955

CREDIT IDENTIFICATION CARD

the Diners' Club

MR. ALFRED BLOOMINGDALE
910 N. LA CIENEGA BLVD.
LOS ANGELES 46, CAL.

#2000

1950

USA

By 1950, the typical middle class American has revolving credit accounts at different merchants. Maintaining several different cards and monthly payments is inconvenient - and creates a new opportunity.

Diners Club introduces their charge card, which helps open the floodgates for other consumer credit products.

USA

1955

Early credit reporters use millions of index cards, sorted in a massive filing system, to keep track of consumers around the country.

To get the latest information, agencies scour local newspapers for notices of arrests, promotions, marriages, and deaths, attaching this information to individual credit files.

Your
BANKAMERICARD
welcome here

1958

USA

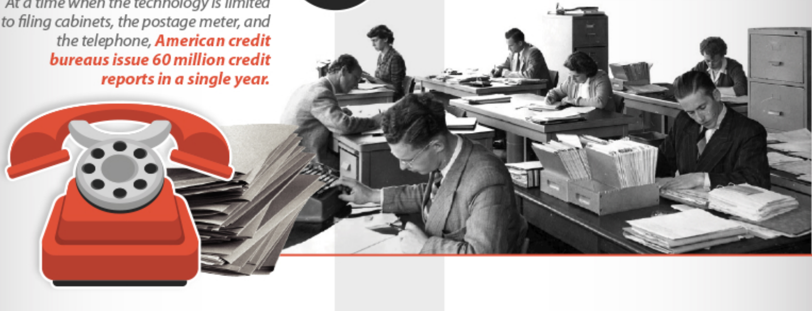
BankAmericard (now Visa) is "dropped" in Fresno, California.

American Express and Mastercard soon follow, offering Americans general credit for a wide range of purchases.

USA

1960

At a time when the technology is limited to filing cabinets, the postage meter, and the telephone, **American credit bureaus issue 60 million credit reports in a single year.**



1964

USA

The Association of Credit Bureaus in the U.S. conducts the first studies into the application of computer technologies to credit reporting.

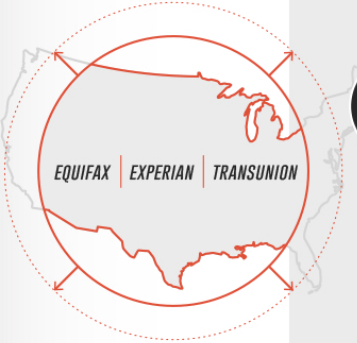
Accuracy of data is also improved around this time by standardizing credit application forms.

USA

1970

The first Fair Credit Reporting Act *is passed in the U.S. It establishes a standard legal framework for credit reporting agencies.*

✓ ✓ ✓ ✓



1980s

USA

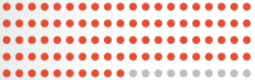
The three biggest credit bureaus attain universal coverage across the country.

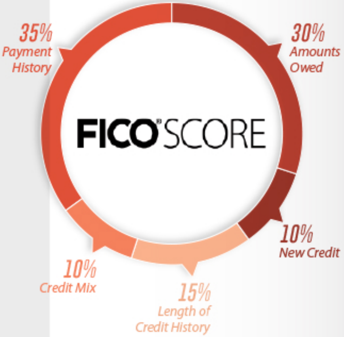
USA

1989

The FICO score is introduced, and quickly becomes a standard system to measure credit scores based on objective factors and data.

It is still used by 90 of 100 of the largest institutions in the U.S. to assess credit risk.



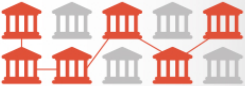


2006

USA

VantageScore is created through a joint venture between the top three credit scoring agencies. **This new consumer credit-scoring model is used by about 10% of the market.**

6 of the 10 largest banks use VantageScore



TODAY

THE INFORMATION AGE has enabled a new era in consumer credit and assessing risk – and today, credit reports are used to inform decisions about housing, employment, insurance, and the cost of utilities.

Learn more about how data, the internet, and modern computing are changing credit in

PART 2 OF THIS SERIES.

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