press release

For immediate release August 12, 1971

The Board of Governors of the Federal Reserve System today issued a Truth in Lending interpretation relating to annual membership fees charged by some credit card issuers.

The Board said such fees are not part of the "finance charge" since they are imposed as a qualification of membership and for the issuance of a credit card rather than as an incident to or as a condition of any specific extension of credit.

A copy of the interpretation to Regulation Z is attached.

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TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Z]

PART 226--TRUTH IN LENDING

Charges for Membership In Open End Credit Plan

§ 226.407 Charges for membership in open end credit plan

(a) A credit card issuer charges the cardholder an annual fee for membership in the credit plan and for issuance of a credit card for use in conjunction with the plan. The payment of the fee is required as a condition of membership in the plan, whether or not the cardholder uses his card for the purpose of obtaining credit. The question arises whether these fees are finance charges under § 226.4(a) of Regulation Z.

(b) Since such fees are imposed as a qualification of membership in the plan and for the issuance of a credit card, and not as incident to or as a condition of any specific extension of credit, they do not fall within the definition of a "finance charge" under § 226.4(a) of Regulation Z.

(Interprets and applies 15 U.S.C. 1605)

By order of the Board of Governors, August 12, 1971.

(signed) Kenneth A. Kenyon

Kenneth A. Kenyon
Deputy Secretary

(SEAL)