

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 71-195
August 19, 1971

INTERPRETATION OF REGULATION Z

To All Banks, Other Creditors, and Others Concerned
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System announced on August 12, 1971, the adoption of an interpretation of Regulation Z, Truth in Lending, relating to annual membership fees charged by some credit card issuers.

The interpretation is printed on the reverse of this circular.

Yours very truly,

P. E. Coldwell

President

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTERPRETATION OF REGULATION Z

§ 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.

8/12/71