

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6783
August 16, 1971

INTERPRETATION OF REGULATION Z

*To All State Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

Printed below is the text of an interpretation of Regulation Z, issued August 12 by the Board of Governors of the Federal Reserve System, relating to annual membership fees charged by some credit card users.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.

§ 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)