

## EITF ABSTRACTS

Issue No. 92-5

**Title:** Amortization Period for Net Deferred Credit Card Origination Costs

**Dates Discussed:** May 21, 1992; July 23, 1992; September 24, 1992;  
November 19, 1992

**References:** FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*  
FASB Special Report, *A Guide to Implementation of Statement 91 on Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases: Questions and Answers*

### ISSUE

Enterprises issue credit cards, debit cards, bank charge cards, and other similar cards (collectively, credit cards) with a variety of terms. An issuer may charge an origination fee in connection with the issuance of a credit card and periodic renewal fees for the continued extension of credit card privileges. As part of a promotion to attract new cardholders or retain existing cardholders, some of those issuers may waive the payment of credit card fees for the initial use period or in some cases for a longer period. Other enterprises issue credit cards that do not require the payment of any fees for the use of the credit card.

In connection with the issuance of a credit card, an issuer may incur certain credit card origination costs that qualify as direct loan origination costs pursuant to Statement 91.

The issue is over what period qualifying deferred credit card origination costs should be amortized. This Issue addresses the amortization of deferred origination costs of credit cards with fees, without fees, or when the fees have been waived for a limited period of time.

This Issue does not address the accounting for credit card origination costs related to the issuance of private label credit cards. Private label credit cards are those credit cards that are issued by, or on behalf of, a merchandising enterprise for the purchase of goods or services that are sold at that enterprise's place(s) of business.

## **EITF DISCUSSION**

The Task Force considered whether credit card origination costs are costs incurred to establish a cardholder relationship as opposed to loan origination costs. The issuer incurs these costs to build a relationship that provides it with an opportunity to earn various revenues beyond those related to the loans to the cardholder. Some members noted that many companies incur costs to build customer relationships and that these costs are typically accounted for as marketing costs and expensed as incurred. In response to comments suggesting that credit card fees are not related to the lending process, the FASB staff pointed out that in paragraph 51 of Statement 91 the Board concluded that "a credit card fee represents a payment by the cardholder to obtain the ability to borrow from the lender under predefined conditions."

The Task Force reached a consensus that credit card origination costs that qualify for deferral pursuant to paragraph 6 of Statement 91 should be netted against the related credit card fee, if any, and the net amount should be amortized on a straight-line basis over the privilege period. In situations where a significant fee is charged, the privilege period is the period that the fee entitles the cardholder to use the credit card. If there is no significant fee, the privilege period should be one year. Significance for this purpose should be evaluated based on the amount of the fee relative to the related costs.

In addition, the Task Force reached a consensus that, with respect to credit card fees and costs for both purchased and originated credit cards, an entity should disclose its accounting policy, the net amount capitalized at the balance sheet date, and the amortization period(s).

This Issue addresses only credit card accounts originated by the enterprise, not those purchased from third parties. The amortization of any premium paid when an enterprise purchases a credit card portfolio is addressed by the consensus in Issue No. 88-20, "Difference between Initial Investment and Principal Amount of Loans in a Purchased Credit Card Portfolio."

Some Task Force members questioned whether the acquisition of an individual credit card from a third-party originator should be accounted for under this consensus or the consensus in Issue 88-20. The Task Force agreed to discuss how to account for the costs of acquiring individual credit card accounts as a separate issue.

## **STATUS**

A related issue was discussed in Issue No. 93-1, "Accounting for Individual Credit Card Acquisitions." In that Issue the Task Force reached a consensus that an enterprise should account for credit card accounts acquired individually as originations under Statement 91 and Issue 92-5.

No further EITF discussion is planned.