Credit Card Interest Rate Caps

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Issue Update

Imposing interest rate caps on credit cards will hurt consumers by reducing access to credit and cutting popular rewards programs. Potentially **65 million** subprime borrowers could lose access to credit cards entirely with a **15% rate cap** and over **240 million** prime and super-prime cardholders could see their rewards diminished or canceled entirely.

S.381, the 10 Percent Credit Card Interest Rate Cap Act, introduced by Senators Bernie Sanders (I-Vt.) and Josh Hawley (R-Mo.), and H.R. 1944, introduced by Representatives Alexandria Ocasio-Cortez (D-NY.) and Anna Paulina Luna (R-FL.), are unworkable, would set a terrible precedent, and leave consumers worse off by restricting access to credit.

Why It Matters

Credit cards are an important tool to help American families access credit and pay for purchases, but millions of families could lose access to their credit cards should interest rate caps be imposed. Research demonstrates that when consumers lose access to credit, they reduce spending on essentials such as healthcare, education, and food, and are more likely to fall behind on their bills, including rent and mortgage payments.[1] Other borrowers will seek funds through alternative channels (e.g., pawn shops, auto title loans, or even loan sharks and the black market) or choose to pay late and endanger their credit profile. These alternatives will lead them to pay much more than they would have had they still had access to their credit card.

These bills would impose a 10% all-in APR credit card interest rate cap. A previously conducted ABA analysis[2] found that if a **15% rate cap** were imposed on credit cards, nearly **95% of subprime borrowers** (i.e., accounts with a credit risk score below 680) would be at risk of losing access to credit cards. The results of the analysis, which was performed using credit card data from Q2 2019, suggest that roughly **65 million accounts** could lose access to credit cards. Today, given monetary policy actions taken by the Federal Reserve to address higher inflation, the impacts of a rate cap would be even more dramatic. Additionally, a rate cap lower than 15%, as called for by these bills, would further serve to restrict the market and lead to less consumer credit access.

While lower-risk cardholders may retain access to credit under a rate cap, they would likely experience higher fees for late payments and annual membership, reduced credit lines, and their credit card rewards programs decline in value, as these programs are financed in part by interest payments. Popular features of rewards cards such as car rental insurance, discounts for food delivery, warranties for purchases made with the card, free airline baggage, and travel insurance would also be at risk.

Academic researchers agree that consumers do not benefit from rate caps. The Brookings Institution has published several articles and analyses over the years that point out that these policies, while seeming to be pro-consumer, are "bad ideas on economic grounds."[3] The Cato Institute[4] and Heritage Foundation[5] argue the same point. Opinion pieces in both the Washington Post and Wall Street Journal come to the same conclusion.[6] In short, the research is clear: interest rate caps are bad for

[1] Cuesta, J., and Sepulveda, A. (2019), "Price Regulation in Credit markets: A Trade-off between Consumer Protection and Credit Access."
[2] *See* American Bankers Association, Statement for the Record, "Rent-A-Bank Schemes and New Debt Traps: Assessing Efforts to Evade State Consumer Protections and Interest Rate Caps." Hearing before the U.S. House Committee on Financial Services, 116th Congress (2020).
[3] Litan, R. (2010). "Proposed Limits on ATM Fees and Credit Card Interest Rates: Counter-Productive Punishment That Goes Too Far."
[4] Michel, N. (2023). "Hawley's Interest Rate Cap Is a Loser."
[5] Michel, N. (2021). "Interest-Rate Caps—Like Other Price Controls—Harm Consumers."
[6] Sarin, N., Washington Post (2024). "Trump and Sanders want to cap credit card rates. But there's a catch." Editorial Board, Wall Street Journal (2024). "Trump's Price Controls on Credit Cards."

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consumers — particularly lower-income consumers who rely on credit access to meet financial needs.

Recommended Action Items

- Urge your member of Congress to oppose S. 381 and H.R. 1944, the 10% interest rate cap bills, as they would have harmful effects on consumers who use credit cards — particularly for those who need it most.
- Government price controls are bad economic policy, pure and simple.