

Americans would save \$100B if credit card rates capped



A new report gives academic backing to the theory that Americans would save money if credit card interest rates were capped. NAM Y. HUH — ASSOCIATED PRESS FILE

BY KEN SWEET

THE ASSOCIATED PRESS

NEW YORK>> Americans would save about \$100 billion a year in interest costs if President Donald Trump's campaign proposal to cap credit card interest rates at 10% were implemented, according to a paper published by Vanderbilt University on Thursday.

Further, the banks and credit card companies would be able to withstand, and even still be profitable, if there were to be a national cap on interest rates. While limited in scope, the paper gives some academic backing to Trump's campaign promise.

The paper found that banks would still be able to earn a profit on most of their customers even if credit card interest rates were capped at 15%, and if the banks continued to offer rewards and perks like points and airport lounge access. If interest rates were capped at 10%, the business model gets more difficult for the banks, but they could still make money off most card customers by cutting back on some rewards.

Usury laws are as old as the Bible but have gotten traction again through Trump's populist politics. When he was a candidate in the 2024 election, Trump proposed a temporary 10% cap on credit card interest rates. He has not spoken about it since the

election.

That said, politicians have seized on the idea. Sen. Josh Hawley, R-Missouri, and Vermont Senator Bernie Sanders introduced a bill in Congress that would match Trump's campaign proposal of capping interest rates at 10%. A similar bill was introduced in the House by Rep. Alexandria Ocasio-Cortez, D-New York. There are already some interest rate caps in effect in the U.S. The Military Lending Act makes it illegal to charge active servicemen and women more than 36% for any financial product. The national regulator for credit unions, the NCUA, has capped interest rates on credit union credit cards at 18%.

The banking industry is adamantly against any caps on credit card rates. Historically, the industry has argued that any cap on interest rates would decimate the credit card business model and would threaten the viability of popular rewards and perks programs that millions of Americans use for free flights and hotel stays.

It was this rhetoric that made Brian Shearer, the author of the report, start to look into the issue. Shearer previously worked at the Consumer Financial Protection Bureau as the regulator's assistant director of policy planning and strategy.

"I wanted to see if President Trump's proposed cap could be taken seriously, and the idea appears that it could be seriously considered," Shearer said.

Americans are carrying more credit card debt than ever before, to the tune of \$1.21 trillion, or roughly \$6,400 per person. The average credit card interest rate is roughly 21%, according to data from the Federal Reserve.

Banks earn revenue from credit cards two different ways: the amount of money they charge merchants to process a credit card transaction, often referred to as interchange, and the interest and fees the banks charge customers. That could be the annual fee on a credit card, or the monthly interest that accrues when a customer carries a balance.

Shearer says the revenue earned from interchange is why banks would remain profitable, even if credit card interest rates are capped. Credit card rewards programs are largely funded through interchange. American Express, for instance, earned \$35.2 billion in revenue from the fees they charge merchants.

Under Shearer's analysis, if interest rates were capped at 15%, Americans would save roughly \$48 billion in interest a year, while at 10%, that figure goes to \$100 billion. Shearer assumed that banks would charge as close to the national cap as possible.

The Vanderbilt paper finds that banks, because they largely fund their rewards programs from interchange, would not likely universally cut back on rewards for Americans. Instead, the Americans who would likely see the biggest reduction in rewards would be those with low credit scores, because they are considered the riskiest borrowers. However, Shearer believes that any modest reduction in rewards for those customers would likely be made up in the interest they would save annually.