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Credit-card holders pay about $14 billion a year in late fees.

Credit-Card Balances Have Become Costlier

BY ANGEL AU-YEUNG

Americans can't remember a time when it cost as much to carry a credit-card balance.

Banks have been raising interest rates on credit cards for years, and some are lifting them higher still to recoup the revenue they fear losing from a new cap on late fees. That means cardholders struggling to pay their bills might not see much relief, if any, even with the Federal Reserve expected to continue lowering rates.

The average credit-card interest rate was 21.5% in May, hovering around its highest level in Fed data going back to 1994. The average balance that people carry was around $6,300 in the second quarter, up 31% from the same period in 2021, according to a Trans-Union report. *

The Consumer Financial Protection Bureau finalized an $8 cap on late fees earlier this year, saying banks exploit a loophole to get around a ban on excessive fees. Fees can be as much as $41 when a payment is even a couple of hours late, the agency said.

Banking and business groups sued to block the cap, and a Texas judge halted its implementation in May just before it was set to go into effect. The rule remains tied up in the court, but card issuers and banks have already been raising rates and charging new fees to offset any potential losses.

Republican presidential candidate Donald Trump proposed a temporary cap of 10% on rates last month, though his campaign didn't provide any details on how he would achieve that.

A fresh look at card balances and delinquencies comes next week, when JPMorgan Chase and Wells Fargo kick off third-quarter bank earnings.

During an earnings call in April, Capital One Chief Executive Richard Fairbank said the late-fee cap would signif-

icantly affect his company's financial performance. He said Capital One was already starting to implement "mitigating actions," without disclosing details.

Bread Financial, whose customers skew more lowerincome than bigger banks, said the same month that it had gotten rid of a "soft cap" of 29.99% ahead of the new rule. The bank also said it would take other actions, such as charging additional fees. **Synchrony** , another card issuer whose customers skew more lower-income, this spring raised interest rates on one of its store cards to as high as 34.99% and implemented a $1.99 fee for each paper statement for some of its card programs.

Meanwhile, the Fed's rate cuts affect only the primerate portion of credit-card rates. The extra interest charged by card issuers on top of that accounts for most of what customers are charged.

That extra interest last year reached its highest level in the past decade, according to a CFPB report in February.

The American Bankers Association has said climbing rates in recent years reflect the growing number of subprime borrowers that issuers have served since the 2008 financial crisis.

A lucrative fee

Credit-card holders pay about $14 billion a year in late fees, according to the CFPB. The agency estimates the late-fee cap would cut that amount by as much as $10 billion.

For the nation's biggest banks, credit cards continue to be a cash cow. JPMorgan, which reports its results Friday, saw revenue from card services and auto in its consumer and communitybanking unit rise 14% to $6 billion in the second quarter from a year earlier. **American Express**, known for its wealthier cardholders, reported more than $2 billion in revenue from annual cardmembership fees, a 15% jump from a year earlier. Total revenue rose 8% to $16.3 billion. Amex will report its thirdquarter results later this month.

Whether the $8 late-fee cap ends up weighing on card issuers' results could hinge on the presidential election. The CFPB would be more likely to keep pushing for it if Democratic candidate Kamala Harris were to win, wrote TD Cowen analyst Jaret Seiberg in a note.

Trump's campaign didn't respond when asked where he stands on the cap.