

The Rise of APRs on Retail Store Credit Cards

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Economics

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Executive Summary

Credit cards are used by millions of Americans and can either build or damage an individual's credit score. When shopping at retail stores, it is common for consumers to be encouraged to apply for store credit cards because they offer convenience, discounts, rewards, and the ability to purchase items immediately. However, over time, retail credit card annual percentage rates (APRs) have increased drastically—often exceeding 30%—placing significant financial strain on consumers, particularly low-income households, millennials, and Generation Z.

As inflation rises, wages remain stagnant, and living costs continue to increase, many consumers turn to retail credit cards as a way to access basic goods. However, many are unaware that credit card companies apply high interest rates to unpaid balances, especially when payments are delayed. These accumulating interest charges make debt increasingly difficult to repay, trapping consumers in long-term financial hardship.

This policy brief examines the downsides of retail credit card reward programs, the challenges consumers face when repaying credit card debt, and proposes solutions such as expanding financial education on responsible credit use and restricting in-store credit cards to individuals with stronger credit histories.

Background

The annual percentage rate (APR) represents the total yearly cost of borrowing money through interest fees. Retail stores often require employees to actively encourage customers to apply for store credit cards at the point of purchase. When consumers open a credit card account, they carry a balance and receive a monthly bill. If the balance is not paid in full by the due date, interest accumulates, increasing the total amount owed.

Retailers benefit financially when more consumers use store credit cards. According to the Consumer Financial Protection Bureau, credit card revenue makes up a significant portion of profits for department stores facing increased competition from online retailers. In 2022, private-label store credit cards generated \$218.85 billion in purchase volume, compared to \$5.45 trillion from general-purpose credit cards. High APRs also benefit banks with large credit operations, as interest income helps offset losses from unpaid loans (Consumer Bankers Association).

General-purpose credit cards are often more difficult to access, but they typically offer lower APRs to consumers with strong credit scores. In contrast, retail credit cards usually charge higher APRs that apply uniformly to all cardholders, regardless of their credit history. Despite this, access to credit is often necessary for major financial steps, such as renting an apartment or purchasing a home.

The primary goal of this policy brief is to propose policies that prevent consumers from being misled or trapped in debt. This includes requiring clearer disclosure of interest rates and fees and implementing credit evaluations to ensure that customers who open retail credit cards are financially able to repay their balances.

Current Policy Landscape

In response to rising APRs and increasing household debt in the United States, several laws have been enacted to prevent illegal and unfair practices by private retailers and credit card issuers. The Truth in Lending Act (TILA) is a federal law that requires credit card companies to clearly disclose APRs, fees, and the total cost of borrowing. Under TILA, consumers have the right to cancel certain credit transactions within a specified period. Additionally, a credit card issuer may not issue a credit card without the consumer's consent and a signed application. Issuers are also

required to provide at least 45 days' advance notice before making significant changes to account terms.

The Consumer Financial Protection Bureau (CFPB) enforces the Credit Card Accountability Responsibility and Disclosure (CARD) Act, which regulates how and when credit card issuers can increase APRs. Once a consumer opens a credit card account, issuers are generally prohibited from increasing interest rates on existing balances, except under specific circumstances outlined in the law.

The CFPB also takes action against unfair and deceptive practices, such as the addition of unnecessary or hidden fees. When credit card companies fail to provide promised rewards or deny consumers benefits they have earned, the CFPB can pursue enforcement actions against issuers. In addition, consumer complaints submitted through the CFPB's website are reviewed to determine whether credit card companies are engaging in illegal or harmful practices.

Problem Analysis

Higher APRs on Retail Credit Cards Compared to General Credit Cards

According to the Consumer Financial Protection Bureau (CFPB), nearly 90% of retail credit cards report APRs exceeding 30%, which is significantly higher than the rates charged by general-purpose credit cards. In addition, major retail credit card issuers increased the overall cost of borrowing in 2024 through higher APRs and added fees, such as paper statement charges. There is little justification for retail credit cards to carry substantially higher interest rates than general credit cards, particularly since general credit cards can be used for emergency expenses, while retail credit cards are often limited to purchases at a single store.

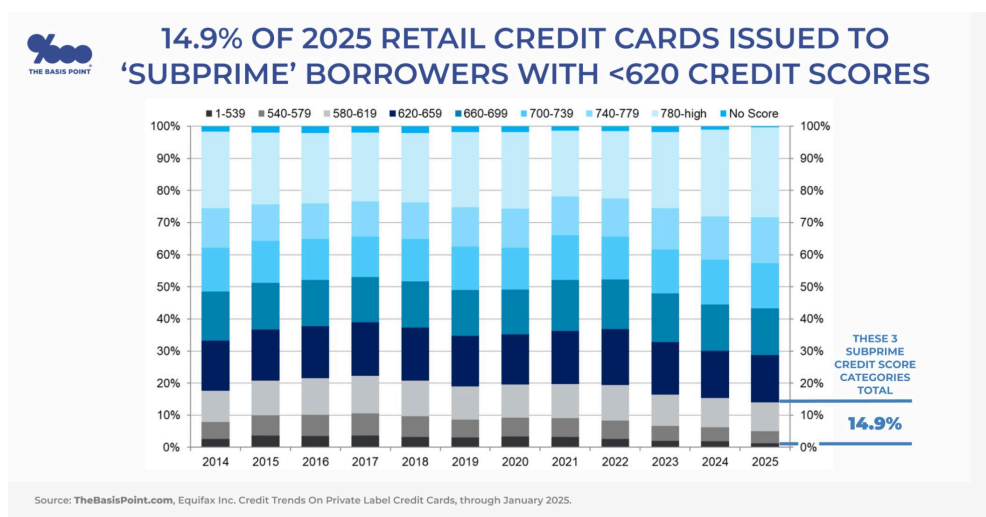
Accelerating Consumer Debt

As interest rates rise, it becomes increasingly difficult for consumers to repay outstanding balances. Credit card debt often contributes to declining credit scores, which can limit an individual's ability to rent a car, secure housing, or qualify for major financial opportunities. When consumers are unable to pay off their debt, the financial burden can negatively affect mental health and increase stress. High interest rates accelerate debt accumulation, making balances grow faster than consumers are able to repay them.

Negative Impact on Vulnerable Consumers

Low-income individuals are more likely to apply for retail credit cards, often due to convenience and the need to afford basic necessities. While credit cards provide short-term access to essential goods, low-income consumers face greater difficulty repaying balances over time. High interest rates place additional financial strain on individuals who are already struggling to meet daily expenses. Retail credit cards are also easier to access, including for consumers with limited or poor credit histories. These individuals are more likely to already carry debt, miss payments, or have experienced bankruptcy. As a result, large retail corporations such as Macy's, Best Buy, and Costco disproportionately profit from financially vulnerable populations.

Below is a graph illustrating the percentage of individuals with low credit scores who have been issued retail credit cards.



In addition to low-income consumers, Generation Z and millennials are particularly vulnerable to the risks associated with credit card use. Current economic challenges—including rising living costs and limited financial stability—have increased younger adults’ reliance on credit cards for financial support. Social pressures and the desire to keep up with consumer trends also contribute to higher credit card usage among Gen Z, increasing their exposure to long-term debt.

Year	Generation Z (18–28)	Millennials (29–44)	Generation X (45–60)	Baby Boomers (61–79)
2012	—	\$2,974	\$6,434	\$6,872
2013	—	\$3,119	\$6,621	\$6,905
2014	—	\$3,286	\$6,790	\$6,892
2015	—	\$3,499	\$6,981	\$6,862
2016	\$1,867	\$3,809	\$7,260	\$6,863
2017	\$1,779	\$4,195	\$7,632	\$6,926
2018	\$2,000	\$4,539	\$7,921	\$6,943
2019	\$2,230	\$4,889	\$8,215	\$6,949
2020	\$1,947	\$4,331	\$7,302	\$6,254
2021	\$2,135	\$4,350	\$6,937	\$5,836
2022	\$2,692	\$5,309	\$7,781	\$6,134
2023	\$3,148	\$6,274	\$8,870	\$6,601
2024	\$3,266	\$6,642	\$9,255	\$6,648
2025	\$3,493	\$6,961	\$9,600	\$6,795
Change: 2012–2025	87%	134%	49%	(1%)

Younger consumers are increasingly carrying larger balances on their credit cards as prices for everyday purchases remain volatile. Rising rent and car payments now account for a growing share of young adults’ income, making it harder to meet basic expenses. Consumers of all ages—but especially millennials and Generation Z—are using credit cards, along with newer

financial products such as buy-now-pay-later plans, more frequently to pay for necessities like groceries compared to prior years.

False Advertising of Credit Cards by Retail Workers

When retail workers promote store credit cards, they often emphasize rewards, discounts, immediate savings, and convenience while downplaying or omitting information about high interest rates. The promise of savings and rewards can encourage customers to overspend, especially since many rewards and discounts are tied to specific conditions, spending thresholds, or repayment timelines. As a result, consumers may sign up for credit cards without fully understanding the long-term financial costs.

Policy Recommendations

Federal APR Cap of 20% for Retail Store Credit Cards

Since the onset of the COVID-19 pandemic, inflation has increased across the economy, including interest rates. According to CNBC, the average APR on new credit cards now exceeds 20%, with rates expected to continue rising. If Congress were to pass legislation capping APRs for retail store credit cards at 20%, banks would still be able to generate profit while reducing the financial burden on consumers. Lower APRs would make it easier for cardholders to repay balances and avoid long-term debt accumulation.

Mandatory Disclosure of Interest Rates and Reward Conditions

When retail workers encourage customers to apply for credit cards, they often focus on discounts and rewards without clearly explaining interest rates or how rewards are actually earned. While initial sign-up discounts may be straightforward, ongoing rewards often include strict conditions and deadlines. To ensure informed decision-making, retailers should be required to clearly

disclose interest rates, reward conditions, and repayment expectations at the time of application so consumers fully understand the financial commitment they are entering.

Expanding CFPB Authority

The Consumer Financial Protection Bureau (CFPB) protects consumers from harmful credit card practices by enforcing existing laws. However, while the CFPB can regulate disclosure and unfair practices, it does not currently have authority to directly limit how high APRs can increase.

Granting the CFPB authority to review and restrict imprudent or excessive APR increases would allow for earlier intervention and stronger consumer protection. Expanded oversight would help prevent harmful interest rate spikes before they place consumers into long-term debt.

Implementation Considerations

By examining the implementation of the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009, CFPB payday lending rules, and the Military Lending Act's 36% APR cap enforcement, policymakers can estimate the costs associated with enforcing an APR cap and expanding regulatory oversight.

Estimated Annual Cost: \$22–\$27 million

Primary Agencies: U.S. Treasury, CFPB, Federal Reserve

Key Challenges: Resistance from banks and lenders

Agency	5-Year Cost Estimate	Annual Cost
CFPB	\$70-\$85 million	\$14-\$17 million
U.S. Treasury	\$15-\$20 million	\$3-\$4 million
Federal Reserve	\$25-\$30 million	\$5-\$6 million
Total	\$110-\$135 million	\$22-\$27 million

Impact Assessment

For many individuals, opening a credit card represents a first step into financial independence. Credit cards can be useful tools when used responsibly and paid off on time. However, before opening a retail credit card, consumers should fully understand their financial responsibilities to avoid long-term harm. Many individuals mistakenly view credit cards as free money, overlooking the obligation to make monthly payments. When bills are not paid on time, interest accumulates, causing consumers to pay significantly more than originally spent. In these cases, credit cards become financial liabilities rather than assets.

Existing policies do not adequately prevent rising levels of credit card debt. When consumers are unaware of high or hidden interest rates and banks are permitted to increase APRs without meaningful limits, credit card debt continues to grow. Without stronger protections, the percentage of Americans carrying credit card debt will likely increase.

The policies proposed in this brief would reduce the number of consumers who fall into cycles of credit card debt. Lower APRs would make balances easier to repay while still allowing banks to earn profits at fair rates. These reforms would promote greater financial stability, economic equity, and consumer welfare.

Conclusion

Current APR regulations provide significant flexibility for banks and lenders to raise interest rates, often at the expense of working-class consumers. This policy brief recommends implementing a 20% APR cap on retail credit cards, expanding CFPB authority, and requiring clearer disclosure of interest rates and reward conditions. These measures would prevent financial institutions from continuing to generate billions in profit while consumers struggle to afford basic living expenses.

According to Bankrate, approximately 46–53% of Americans carry credit card debt. Reducing APRs could help slow the growth of this debt, decrease default rates, and create positive economic ripple effects that support long-term financial stability and economic growth in the United States.

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