PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

REJECT CREDIT CARD CAPS

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ADVANCING AMERICAN FREEDOM

TOPLINE: Proposed caps on credit card interest rates are price controls on credit. Like all price controls, they would create shortages, drying up credit for the very families they are meant to help and pushing desperate borrowers toward predatory lenders.

BACKGROUND: Credit card interest rates average nearly 21%. This "price" of credit reflects real costs. Lenders must cover deposit interest, rewards programs, fraud prevention, and (often the largest expense) charge-offs, which average more than 5% of balances annually.

After accounting for all expenses, banks' net returns on credit card assets are typically less than 2% annually. Rates are based on individualized risk: CFPB data show effective rates of roughly 11% for super-prime borrowers, 22% for prime, and 25% for subprime. Capping the price of credit does nothing to reduce the cost of providing it. When the mandated price falls below cost, lenders stop lending. A 10% cap would make lending to roughly 60% of Americans unprofitable.

Action Items (Congress, Federal Executive Branch, States):

- Congress and state legislatures should **reject legislation imposing credit card interest rate caps**, including the proposed 10% federal cap and state usury limits.
- **Policymakers should not restrict risk-based pricing,** which allows lenders to serve borrowers across the credit spectrum.

How It Would Make Life More Affordable:

- Rejecting caps helps ensure Americans have access to emergency financing.
  - Borrowing $3,000 for a car repair may cost $300 in interest, but it could be what allows the borrower to keep working.
- Restricting Americans' access to credit would limit what they could buy.
- The evidence on caps is damning: after Illinois imposed a 36% all-in rate cap, lending to subprime borrowers fell 38% and financial well-being worsened.
- Studies show caps increase fees and push borrowers to black-market lenders.

Notable *Harmful* Proposals: Sen. Bernie Sanders' (I-Vt.) 10-Percent Credit Card Interest Rate Cap Act (S. 381); Trump-endorsed one-year 10% cap; Sen. Josh Hawley's (R-Mo.) Capping Credit Card Interest Rates Act (S. 2760 [118th Congr.]) (18% cap); Illinois Predatory Loan Prevention Act (36% all-in APR cap, 2021).

BOTTOMLINE: Usury laws have a more-than-2,000-year track record of failing to achieve their stated aims in societies spanning from ancient Egypt to 18th-century France. An interest rate cap cannot lower the cost of extending credit; it simply cuts off the supply of credit, leading to more credit denials, more bankruptcies, and more families driven to actual loan sharks.