



October 2025

Why Interest Rate Caps Are Harmful to Consumers

By Stephen Moore

Stephen Moore

Regular *Fox News* contributor and founder of
Unleash Prosperity.

Introduction

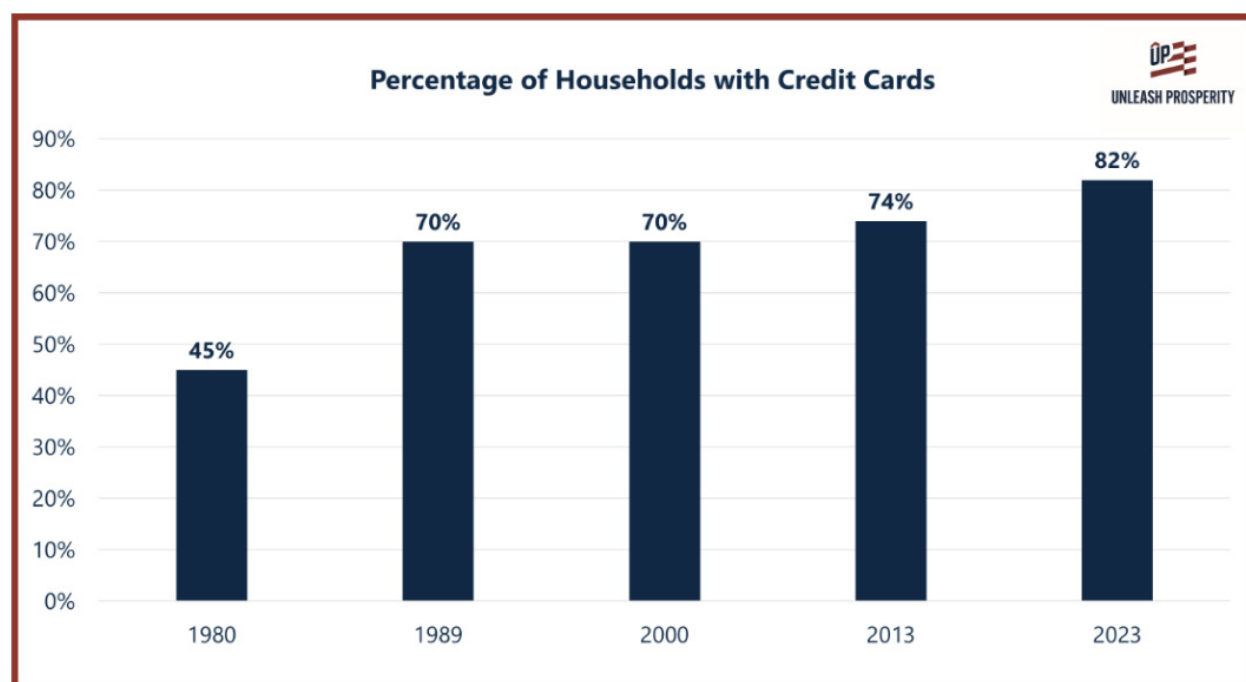
If we go back in time about 40 years ago, only half of Americans had access to the convenience of credit cards – and many lacked checking accounts at banks. In the 1960s, '70s, and '80's, if young people or lower-income Americans lacked cash, they couldn't buy things – even a McDonald's hamburger. People would literally go hungry at night if they didn't have hard cash. And they experienced the indignity of having to borrow money from friends and family members. If they were really desperate, they might go to loan sharks or pawn shops.

What is different now is that nearly all Americans - nearly 80% - have access to credit cards. In America today, there are more than 500 million credit card accounts – nearly double the number of people over 18. And credit card apps are ubiquitous on cell phones, which customers can just tap their phone on a machine to pay for goods or services.

The *Wall Street Journal* recently reported that hundreds of thousands of new accounts have been opened this year. During this time, spending on cards has soared.

In other words, access to credit has been almost fully democratized. Everyone is using them. They are one of most popular and useful consumer products of all time. The biggest beneficiaries of this explosion of credit card access and usage has been low- and moderate-income families.

The figure below shows the explosion in credit card access:



As access to credit has expanded, the risk of nonpayment on monthly credit card debts has risen. The increase in credit card issuance has included many Americans with lower credit scores – people who once were locked out of credit markets altogether. The deal has been that credit is now more available,

but penalties for late or non-payments can be high because the banks and the credit card companies take big losses from these delinquent payments.

Credit card companies often charge high interest rates on late payments – and many in Congress view this as unfair and even a form of usury. Now there is a move to regulate the credit card industry by capping these interest rates. By the way, there are multiple credit card companies and customers can shop around for the best deal they can get in this competitive market.

Now there is legislation proposed by Senators Josh Hawley (a Republican) and Bernie Sanders (an independent). They want a federal law that places a 10 percent cap on the interest rate charged by credit card issuers. Hawley says the measure is “a simple way to provide meaningful relief to working people” at a moment when “the biggest credit card issuers get richer and richer by hiking their interest rates to the moon.”¹ (There is also a bipartisan proposal in the House.²) During last year’s presidential campaign, Donald Trump also voiced support for capping credit card interest rates at 10 percent.³

Supporters of interest-rate ceilings claim to be looking out for “the little guy.” But they ignore solid evidence that interest rate ceilings lead to the denial of credit in the first place and harm those with low incomes by curtailing the credit options available to them.

Without the interest rate penalties on late payments, many millions of low-income Americans with low credit scores may not have access to credit at all. This is not disparate or discriminatory treatment. And the people who DO pay their credit card balances, but have poor credit ratings, would be the big losers because credit would be harder or impossible to come by.

It’s simple: Banks must be able to charge interest rates that correspond to the risks they’re taking with customers who have lower credit profiles.

If this differential pricing is prohibited by federal law, the banks are destined to do what’s in their economic interest and sharply curtail their offerings to consumers with substandard credit profiles. That outcome benefits no one.

The Inherent Risks in Credit Cards

When banks make loans for homes and cars, they have recourse if the borrower defaults: the home or the car can be repossessed. In sum, there is property tied to the loan.

With credit cards, there is nothing to repossess. There is no “collateral” on the loan. If a borrower defaults, the credit card issuer has little recourse but to eat the losses. And that creates the need to charge interest rates that correspond to the riskier nature of credit card lending.

1 <https://www.sanders.senate.gov/press-releases/news-sanders-hawley-introduce-bill-capping-credit-card-interest-rates-at-10/>

2 <https://ocasio-cortez.house.gov/media/press-releases/ocasio-cortez-luna-introduce-bill-cap-credit-card-interest-rates-10>

3 <https://www.npr.org/2024/12/01/nx-s1-5208646/trump-plans-to-cap-credit-card-interest-rates>

The good news is that delinquency rates on cards are fairly low and stable. according to the *Wall Street Journal* in a 2025 analysis of the industry: “Low delinquencies across the industry have given more issuers the confidence to lend more. JPMorgan Chase, Citigroup, Bank of America and Wells Fargo reported drops in delinquency rates in the third quarter from a year ago. Rates of charge-offs were also down.”⁴

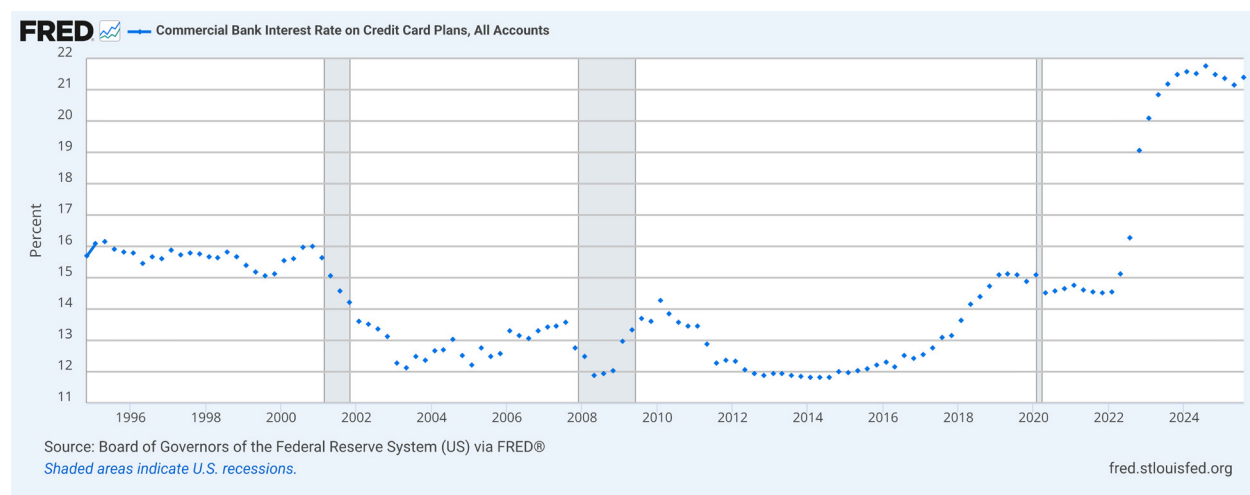
These numbers lead to two conclusions: 1) the vast majority of the credit card holders are routinely paying their bills on time, and 2) the interest rate on credit card debt serves the purpose of discouraging most card holders from running up debt on their cards. It’s common knowledge of most card holders that the worst way to borrow is on one’s credit cards.

A cap on the interest rates would encourage more, not fewer, delinquencies. And to make up for those added losses to the banks, other fees would rise and/or credit card benefit programs would be curtailed.

Interest Rates

Credit card issuers set interest rates based on a variety of factors – though the most important are typically the Federal Reserve’s prime rate and each customer’s creditworthiness, income level, and relationship with the issuing bank.

The Hawley-Sanders bill would cap credit card interest rates at 10 percent, which is lower than the interest rate at any point since 1994, as the table below shows. During this period, interest rates on credit cards have never fallen below 11.8 percent. And as of the most recent data available, from May 2025, interest rates are at 21.1 percent.⁵



⁴ <https://www.wsj.com/finance/banking/credit-card-consumers-charts-a4ce81e5>

⁵ <https://fred.stlouisfed.org/series/TERMCBCCALLNS#>

The Impact

Senators Hawley and Sanders look at credit card interest rates through a very narrow – and very punitive – lens. In their worldview, blocking card issuers from setting interest rates higher than 10 percent will prevent card owners from getting stuck in a cycle of debt that they cannot repay.

The senators overlook the public policy equivalent of Isaac Newton’s third law of motion, which states that, “For every action, there is an equal and opposite reaction.” In this case, if credit card issuers can’t set and charge their own rates, they will adjust their business model to account for the lower mandated interest rate ceiling.

We have a prime recent experiment of how well-intentioned interventions in the credit and debit card market had steep and expensive unintended consequences.

In March 2021, Illinois passed a law that capped at 36 percent interest rates on “loans below \$40,000 for all consumer credit products from any person or entity that offers or makes a loan to a consumer in Illinois.” The measure was hailed as a way to help the poor. “I applaud Illinois for leading on this issue,” said Congressman Chuy Garcia, “and will fight to end these cycles of debt that trap Chicagoans and so many Latino, Black, and poor communities across the country in poverty.”⁶

But like Hawley and Sanders, the advocates didn’t stop to consider how the supposed beneficiaries could be harmed by the measure. Predictably, a study found that the number of loans extended to subprime borrowers in Illinois declined by 38 percent in the six months following enactment of the Illinois law, and the value of all credit extended to them declined by 14 percent. The study also found that subprime borrowers lost credit access and experienced “worsened financial conditions: as a result of the interest-rate cap.”⁷

A survey of nearly 700 subprime borrowers, conducted nine months after the legislation was enacted, revealed startling impacts: “Roughly half of all survey respondents indicate that they are not confident that they can receive a personal loan from their bank at any time.” Moreover, loans were taken out to pay utilities, consolidate debt, make car loan payments and car repair payments, and make rent/mortgage payments. The survey also showed that 39 percent of respondents saying their financial well-being had declined.⁸

When asked how their financial well-being had been impacted since their previous lender stopped offering loans in Illinois, 49 percent of the respondents with annual incomes below \$50,000 replied that their financial well-being had declined. Half of all respondents said that because of curtailed lending, they had to pay bills late and nearly one-third said they had to borrow money from family and friends, were contacted by a debt collector, and reduced everyday expenses.⁹

6 <https://woodstockinst.org/press-release/news-il-supports-36-percent-cap/>

7 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4315919

8 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4315919

9 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4315919

These outcomes should not have been a surprise. An earlier study, by a Dartmouth professor, looked at Oregon's restrictions on payday lending terms. He concluded that, "restricting access caused deterioration in the overall financial condition of the Oregon households. The results suggest that restricting access to expensive credit harms consumers on average."¹⁰

The harm associated with government-mandated interest-rate ceilings has even been documented abroad. The World Bank has looked at the impact of interest rate caps in six different settings: Kenya, Zambia, Cambodia India, the United Kingdom, and the countries of the West African Economic and Monetary Union."

The conclusion? Interest rate ceilings, "often have substantial unintended side-effects. These side-effects include increases in non-interest fees and commissions, reduced price transparency, lower credit supply and loan approval rates for small and risky borrowers, lower number of institutions and reduced branch density, as well as adverse impacts on bank profitability."¹¹ A study of an interest rate cap in Chile reached a similar conclusion, with loans to higher-risk borrowers declining 24 percent.¹²

The problem facing those with low credit scores, notes West Virginia University's Christopher Freiman, "is that many borrowers lack good options to acquire the money they need. *Reducing* borrowers' options by one doesn't solve that problem—in fact, it makes the problem worse. Borrowers now have even fewer options than they had before." He points out that "it would be perverse for the state to ban the sale of low-cost tents to those in need of permanent housing on the grounds that these sales exploit their lack of housing options."¹³

The poor need more access to credit, not less. Credit card issuers and other financial institutions should be incentivized to expand credit, not curtail it.

10 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1335438

11 <https://openknowledge.worldbank.org/server/api/core/bitstreams/db52e3ae-519a-587d-94b8-a40fbd69d822/content>

12 <https://www.sciencedirect.com/science/article/pii/S0378426619301463>

13 <https://www.econlib.org/dont-cap-credit-card-interest-rates/>

What Happens if the Hawley-Durbin Bill Becomes Law?

Clearly, interest-rate ceilings push America's poorest further outside the financial system – making it more difficult to get access to critical funding to meet everyday expenses. One study showed that a 15 percent interest rate cap would threaten access to credit for 95 percent of people with a credit score under 700.¹⁴ Another analysis showed that a 10 percent ceiling would result in more than 14 million consumers seeing their credit eliminated or sharply curtailed.¹⁵

That's bad for the poor and it's bad for the U.S. economy. People suddenly finding themselves with reduced access to credit would likely spend less, which would depress economic activity and economic growth – taking the United States back to the 1970s.

There could also be a ripple effect that affects all credit card holders. A trade association that represents large financial institutions notes that one option would be to raise credit rating thresholds for credit card eligibility. Another option could be to raise minimum required payments, which would likely reduce the risk of borrowers becoming delinquent and thereby reduce expected credit losses.¹⁶

Another measure to reduce costs, which has been the market response to debit card interchange fees (as discussed below), would be to offer fewer benefits to cardholders, including reduced rewards for purchases. But Americans love their reward programs, so this would be a hit to millions of cardholders.

Moreover, for higher-rate accounts associated with higher expected credit losses, it may not be possible to sufficiently compensate for the loss of interest income through cost reductions, compelling banks to withdraw the credit lines completely.

Banks could also eliminate or curtail zero-interest or low-rate promotional offers. They might also seek to increase fee income by adding an annual fee for card access. Fees for getting cash advances and other fringe benefits could be curtailed.

Ironically, many of the same members of Congress who complain of bank “junk fees,” would be inviting a lot more of them to compensate for the lost interest income.

Again, for higher-rate accounts associated with higher expected credit losses, it may not be possible for any of these responses to sufficiently compensate for the loss of interest income through such measures.¹⁷

14 <https://www.aba.com/-/media/documents/testimonies-and-speeches/statement-hfsc-interest-rates-and-bank-partnerships-02052020.pdf>

15 <https://bpi.com/the-potential-adverse-consequences-of-a-credit-card-interest-rate-cap-2/>

16 <https://bpi.com/the-potential-adverse-consequences-of-a-credit-card-interest-rate-cap-2/>

17 <https://bpi.com/the-potential-adverse-consequences-of-a-credit-card-interest-rate-cap-2/>

Price and Interest Rate Controls Almost Never Work

When examining proposals to cap interest rates on credit cards, it's useful to consider the impact of similar federal measures from the past. An example is the Credit Card Accountability Responsibility and Disclosure Act of 2009 (also known as the CARD Act).

It prohibited card issuers from hiking interest rates on existing credit card balances. Unable to align risk with reward, the issuers responded as expected – they shed their subprime accounts. In the five years following passage of the CARD Act, these accounts declined in number by 40 percent – affecting nearly 10 million consumers. During the same time period, subprime account openings declined by nearly two-thirds, according to the Americans Bankers Association.¹⁸

Similarly, Congress capped interchange fees on debit card transactions in 2011. Ironically, one of the major sponsors of that bill was Illinois Senator Dick Durbin.

The fee reduction led debit cards to scale back their rewards programs, which are largely paid for by interest payments. The reduced rewards made debit cards less attractive to consumers, and a Northwestern University study found that the “loss of debit-card rewards led to a 30 percent decline in debit-card payment volumes and a corresponding increase in credit-card payment volumes.”¹⁹

These interchange fee caps were supposed to save consumers money. The evidence shows that more than 90% of merchants and retail stores did not lower their prices and simply added the cost savings to their profit margins.

Finally, reward programs were limited after the price caps on interchange fees.

If Washington mandates a 10 percent cap on interest rates, don't be surprised if popular credit card rewards programs get slashed.

¹⁸ <https://www.aba.com/-/media/documents/testimonies-and-speeches/statement-hfsc-interest-rates-and-bank-partnerships-02052020.pdf>

¹⁹ <https://insight.kellogg.northwestern.edu/article/who-pays-generous-credit-card-rewards>

Lessons from Loan Sharks

It's useful to remember that for much of U.S. history, credit was scarce. (Credit cards only came into existence in 1958.) And banks would only lend to people who fit a certain profile, which left millions of people largely unable to tap into the capital needed for anything from starting a business to meeting everyday expenses.

With interest rates held low by government mandate, unlicensed lenders stepped in. As the Nobel laureate economist Paul Samuelson said in 1969, "Setting too low ceilings on small loan interest rates will result in drying up legitimate funds to the poor who need it most and will send them into the hands of the illegal loan sharks."²⁰

Loan sharking became so prevalent in the United States that crackdowns on them attracted widespread attention. Thomas Dewey's prosecution of loan sharks – part of his campaign against organized crime – generated so much favorable publicity that he was elected governor of New York and later served as the Republican nominee for President.

Consumer groups recognized that interest rate ceilings were an opening for loan sharks, and so they advocated for less restrictive lending terms, notes Todd Zywicki of George Mason University.

*The reform effort culminated in the drafting of the Uniform Small Loan Law, which proposed dramatic increases in state usury ceilings. Although the proposal to raise usury ceilings was controversial at first, by mid-century the loan shark problem had largely dissipated in states that adopted the law, replaced by personal finance companies and small-loan companies operating legally.*²¹

Congress has also tried to rein in "payday loans," using the same flawed logic that their interest rates and charges are excessive. But payday loans are popular in many low-income neighborhoods precisely because some Americans still have no access to credit cards. Any measure that reduces the availability of credit cards will only increase demand for payday loans.

Were the United States to impose a 10 percent cap on the interest rates credit card issuers could levy, loan sharks would return overnight. The Hawley-Sanders bill should be known as the Full Employment for Loan Sharks Act.

20 <https://www.washingtonpost.com/news/volokh-conspiracy/wp/2014/10/19/the-new-york-times-editorial-board-needs-a-copy-of-consumer-credit-and-the-american-economy/>

21 <https://www.cato.org/commentary/sanders-aoc-protection-loan-sharks-act>

Conclusion

The widespread use of credit cards in America – with trillions of dollars in transactions each year – is a testament to the popularity of these cards. There is a reason that Americans have more than 600 million cards. The cards are convenient, allow shoppers to make instant purchases, reduce the need to carry cash, and allow Americans to borrow off their credit card when their short-term income is constrained.

The system isn't broken. Credit cards are more popular than ever as we move toward becoming a cashless society. There is also fierce competition between the banks and the credit card companies to attract card holders. That's why there are so many ads on television and online touting the wide variety of cards with various rewards.

Customers are free to pick and choose which card and which bank offers the lowest interest rates. That's how a competitive market works.

But rules that make cards less profitable and more vulnerable to the risk of losses from non-payments threaten this well-functioning and economically vital market.

