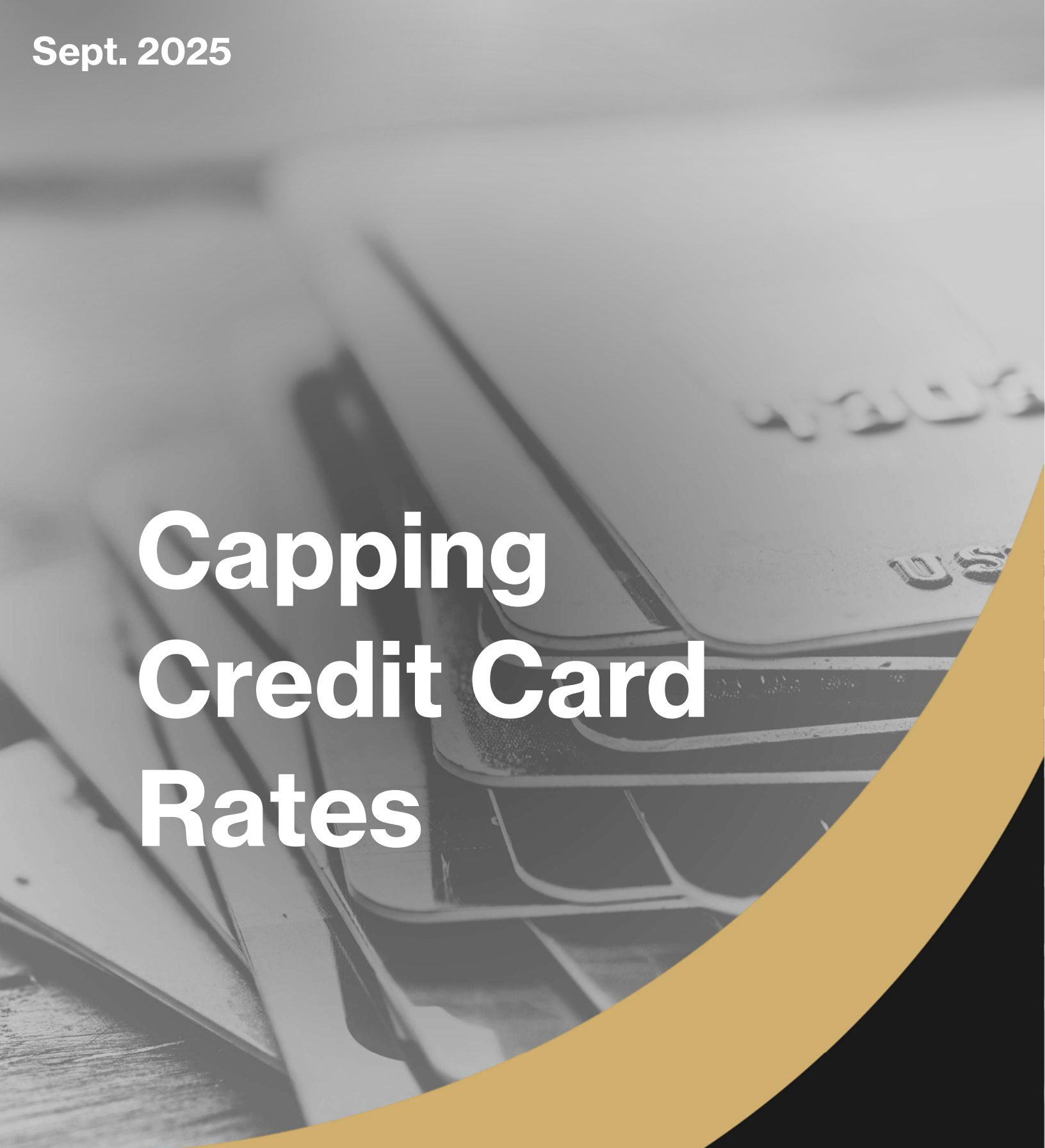
Sept. 2025



Capping Credit Card Rates

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Thou shalt not give him thy money upon usury. Leviticus 25:37

Introduction[1]

Credit card debt in the United States now exceeds $1.21 trillion.[2] Credit cards are how most Americans make daily purchases of goods and services and are the main source of unsecured credit.[3] They are also the main source of capital for small businesses.[4] At the same time, credit cards are expensive to consumers and highly profitable for banks. They add around $120 billion in interest[5] and $162 billion in processing fees like interchange[6] to the already inflated retail prices of essential goods and services. And almost 30% of that is pure profit.[7] As policymakers on both the left and the right look for ways to lower costs for Americans, it is no surprise that they are looking to apply the millennia old tool of usury to thin credit card banks' profits and save Americans' billions.

For example, in 2019, Senator Bernie Sanders and Representative Alexandria Ocasio-Cortez introduced the "Loan Shark Prevention Act" to cap interest rates on credit cards at 15%.[8] In 2023, Senator Josh Hawley introduced a bill titled the "Capping Credit Card Interest Rates Act" to cap interest rates on credit cards at 18%.[9] A year later, in 2024, President Trump campaigned on a 10% interest rate cap for credit cards, and in February 2025 Senators Hawley and Sanders combined their efforts to introduce a bipartisan bill titled the "10 Percent Credit Card Interest Rate Cap Act" to do just that.[10]

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[1] This paper was made possible by a fantastic March 2025 report written by Itamar Drechsler, Hyeyoon Jung, Weiyu Peng, Dominik Supera, and Guanyu Zhou from the Federal Reserve Bank of New York, University of Pennsylvania, and Columbia Business School, which was published by the Federal Reserve as a staff report. Itamar Drechsler et. al, Credit Card Banking (Fed. Rsrv. Bank of New York Working Paper, Staff Report No. 1143, 2025), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1143.pdf [hereinafter "Drechsler Report"]. The author would like to thank Benjamin Dinovelli, Joel Dodge, Luke Herrine, Brad Lipton, Neale Mahoney, Allison Preiss, Ganesh Sitaraman, and Natalie Souza for comments and feedback in the drafting of this report.

[2] Fed. Rsrv. Bank of N.Y., Quarterly Report on Household Debt and Credit 2024: Q4 (Feb. 13, 2025).

[3] Barry Elad and Kathleen Kinder, "Credit Card Statistics 2025" CoinLaw (June 16, 2025), https://coinlaw.io/credit-card-statistics/.

[4] JP Morgan Chase, "Cash or credit: Small business use of credit cards for cash flow management (May 2023), https://www.jpmorganchase.com/institute/all-topics/business-growth-and-entrepreneurship/small-business-use-of-credit-cards.

[5] Estimating $30.5 billion in interest charged in Q4 2022. *See* CFPB, The Consumer Credit Card Market 52 (Oct. 2023), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2023.pdf.

[6] Drechsler Report, *supra* note 1, at 21.

[7] Assuming a 6.8% return on assets per the Drechsler Report, *id.* at 7, on the $1.21 trillion in outstanding debt.

[8] H.R. 2903, 116th Cong. (introduced May 22, 2019).

[9] S. 2760, 118th Cong. (introduced Sept. 11, 2023).

[10] S. 381, 119th Cong. (introduced Feb. 4, 2025).

Whenever a bill like this is introduced, bank lobbyists and commentators claim that the usury rate would limit access to credit and reduce credit card rewards, usually making arguments at the conceptual level.[11] Conversely, bill proponents claim that it would save Americans money.

Of course, lowering interest rates will save money. And of course, lowering interest to a point where banks lose money on some customers means those customers will be denied a card. But neither side to date has attempted to quantify *how much* money Americans would save or *how much* of a decrease credit card banks can afford. We know credit card companies have significant profit margins, so surely banks could absorb *some* reduction in interest without reducing rewards or access. The question is, *how much* of a cut can the banks absorb? This paper attempts to answer that question to provide the basis for a more nuanced discussion of proposed usury rates using a recently published Federal Reserve staff report ("the Drechsler Report") that provides data on the costs and revenues for credit card banks within each FICO tier.[12]

The results are clear: The profit margins of the credit card market *at every FICO tier* are thick enough to absorb a very significant reduction in interest caused by a new federal usury rate. Even in this high-rate environment, at a 15% cap, nearly every FICO tier would produce higher returns for the bank than the Federal Funds Rate (FFR)[13] without needing material adjustments to rewards or advertising budgets or customer distribution. And since people shop based on highly salient rewards programs, a usury

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[11] *E.g.*, American Bankers Association, et. al, Joint Trades Opposition Letter to H.R. 1944 (Mar. 11, 2025), https://www.aba.com/-/media/documents/letters-to-congress-and-regulators/jointltropposehr1944.pdf?rev=7fb5af19abe148f1b41e7be4185488b6. Commentators and academics often parrot this narrative, without engaging in more in-depth or specific analysis. *See e.g.*, Natasha Sarin, Opinion, *Trump and Sanders want to cap credit card rates. But there's a catch*, WASH. POST (Nov. 25, 2024), https://www.washingtonpost.com/opinions/2024/11/25/trump-sanders-cap-credit-card-rates; Christopoher Freiman, *Don't Cap Credit Card Interest Rates,* Econlog Post (Mar, 5, 2025), https://www.econlib.org/dont-cap-credit-card-interest-rates/.

[12] Drechsler Report, *supra* note 1. While credit card banks and most other lenders use their own proprietary credit scores, the Fair Isaac Corporation (FICO) produces credit scores that are widely used by lenders across the market (often with augmentation). For that reason, FICO is often used by researchers to batch consumers by credit risk. A FICO tier is a group of consumers with a similar credit risk profile.

[13] The FFR is the rate that banks charge each other to borrow reserve balances overnight. Historically, the FFR was seen as the base rate that influences the interest rates on other financial instruments. As of December 24, the target FFR was between 4.25 and 4.50%. *See Open Market Operations*, BOARD OF GOVERNORS OF THE FED. RSRV. SYS. (last visited Mar. 19, 2025), https://www.federalreserve.gov/monetarypolicy/openmarket.htm. The Federal Reserve also influences monetary policy by modulating the interest that it pays on banks' reserve balances held at Federal Reserve Banks. As of March 2025, the Interest on Reserve Balance is 4.40%. *See Interest on Reserve Balances*, BOARD OF GOVERNORS OF THE FED. RSRV. SYS. (last visited Apr. 28, 2025), https://www.federalreserve.gov/monetarypolicy/reserve-balances.htm.

cap of 15% would have very little impact on rewards or lending volumes at any FICO tier and would lead to at least $48 billion in annual customer savings coming almost entirely out of bank profits.

A 10% cap would save much more—a massive $100 billion per year. However, to maintain profitability of customers with FICO scores below 760, banks would likely need to reduce rewards to those customers by as much as $27 billion. With these adjustments, there would only need to be reductions in lending volumes for customers with FICO scores below 600. On net, consumers would collectively save $73 billion. And in every tier, the money saved by customers in the form of lower interest would far exceed the value of any rewards lost (by at least three times). Customers with FICO scores above 760 would not see a reduction in their rewards but they would receive some of the savings – about $16 billion worth.

An 18% annual percentage rate (APR) cap would produce more marginal savings of $16 billion annually, and like the 15% cap, we should not expect any impact on rewards or lending volumes at any FICO tier. However, at an 18% cap, I would expect customers above FICO 760 to pay about $7 billion *more* in interest if the banks coordinate around the usury rate and raise rates for low-risk customers.

Usury Cap	Annual Interest Savings	Annual Rewards Reduction	Reduced Lending Volumes	Avg. Monthly Interest Saving Per Person[14]
10% APR	$100 billion	$27 billion (below FICO 760)	Starting at FICO 600	$899
15% APR	$48 billion	$0	N/A	$563
18% APR	$16 billion	$0	N/A	$361

Given that rates currently average around 22%,[15] it may come as a surprise that credit card banks could weather such a deep price cut without substantially reducing lending

[14] Assuming an average balance of $6,730 and an average interest rate of 23.37% APR. Chris Horymski, "Average Credit Card Debt Increases 3.5% to $6,730 in 2024," EXPERIAN (Mar. 12, 2025), https://www.experian.com/blogs/ask-experian/state-of-credit-cards/.

[15] FRED, Commercial Bank Interest Rate on Credit Card Plans, Accounts Assessed Interest, https://fred.stlouisfed.org/series/TERMCBCCINTNS, (updated April 7, 2025).

volumes or (for the 15% and 18% caps) rewards. There are several simple reasons that explain this:

First, unlike any other credit market, the majority of credit card revenue comes from sources other than interest, including primarily interchange fees charged to merchants. Second, the rates and profit margins on credit cards are simply *much* higher than those for any other type of bank loan, which is true at all FICO tiers. The fact that the business model is designed to generate profits at every tier level is important. It means that, contrary to popular belief, poor customers are not really subsidizing rich customers, rather, everyone is subsidizing bank profits, and therefore, a reduction in interest from one tier would not impact customers in other tiers. Third, credit card banks compete based on rewards, so they are likely to cut into profit margins before resorting to reducing rewards. And fourth, the credit card industry wastes billions of dollars in bloated advertising budgets, so they can easily find some cost-savings in their ad budgets as well.

This paper starts with a brief market description and summary of the regulatory history of credit cards, before turning to the purpose of this paper, which is an analysis of the potential impact of a 10%, 15% or 18% APR cap using data recently released by the Drechsler Report.

I. The Credit Card Market: An Overview

The credit card market is more complicated than typical lending markets because a credit card is both a loan product and a payment product. At the most basic level, credit cards are debit cards that people use to pay for things on credit instead of with money in a deposit account. The consumer gets a bill at the end of the month from their bank to pay a "minimum payment" that usually constitutes a very small percentage (often 2%) of the overall balance, or a de minimis fixed amount (often $25) if that is more. Consumers who pay the full balance, not just the minimum payment, pay no interest at all. But consumers who pay the minimum payment are charged high interest rates on the "revolving" balance. The credit line is "open end" and so customers can continue to spend on the card and add to the overdue balance indefinitely so long as they pay the very small minimum payment every month. An account is only considered in "default" when the customer misses minimum payments.

In the U.S. economy, 70% of retail spending is done on a credit card instead of cash, check, debit card, or other electronic payment like using an automated clearinghouse (ACH).[16] The financial market and legal framework incentivizes and rewards customers who make payments on their credit cards, through (1) heightened fraud protections, (2) boosting credit scores based on credit card spending, and (3) credit card rewards. As a result, about 40% of credit card users are "transactors" who use the credit card solely as a payment device to get those benefits, pay off the full balance every month, and never incur interest. The remaining 60% are "borrowers" who have a balance that carries over month-to-month, churning interest for the card issuer.[17]

Interest is not the only source of income for credit card lenders. In fact, the majority of revenue comes from transaction fees like "interchange" paid by merchants to banks that issue the credit cards. Interchange fees are set by payment networks (e.g., VISA, Mastercard, Discover, American Express) and are collected from merchants primarily by remitting a small percentage less than the full price of the product.[18] Credit card issuers pocket the difference and use some of that revenue to pay small amounts to other entities involved in processing the payment, including payment processors, the merchant's bank, the payment network company, and other intermediaries. In effect, consumers and merchants across the U.S. economy pay $162 billion in rents to these companies that merely process data to facilitate credit card payments.[19] While debit card interchange fees are capped by federal law for large banks, credit card interchange fees are not.[20]

II. Regulation of Credit Cards

For millennia, usury laws have limited when lenders can charge interest and how much they can charge. Usury appears in many ancient religious texts like the Bible and can be found in the oldest codified law in human history, Hammurabi's Code.[21] After a lengthy period in which English common law banned lenders from charging interest entirely, King Henry VIII and later Queen Elizabeth I first legalized lending with interest

[16] Drechsler Report, *supra* note 1, at 1.
[17] *Id.*
[18] Benjamin Dinovelli, *The Myth of Credit Card Competition* (draft on file with the author)
[19] Greg Lindenberg, *Credit and Debit Card Swipe Fees Hit Record of $187.2 Billion*, CSP (Mar. 19, 2025), https://www.cspdailynews.com/technologyservices/credit-debit-card-swipe-fees-hit-record-1872-billion.
[20] *See* Dinovelli, *supra* note 18.
[21] For a brief history of usury laws, *see* Adam J. Levitin, The New Usury: The Ability-to-Repay Revolution in Consumer Finance, 92 GEO. WASH. L. REV. 425, 433-35 (2024).

in the sixteenth century, at a rate of no more than 10%.[22] Between then and the founding of the United States, English usury limits were periodically adjusted, but never higher than 10%.[23] The American colonies adopted the legal tradition of usury from England, and every state in the union had a usury law at the founding. The national average was around 6% in the original 13 states, and as new states were added, by 1900 state rate limits rose to between 8% and 10%.[24]

But in the early twentieth century, usury rates began to rise. In 1916, the American Industrial Lenders Association, a lobbying organization for small-dollar lenders, created a state-level Uniform Small Loan Law (USLL) that would raise the permissible rate to 3.5% per month or 42% annually.[25] These lobbyists found strange-bed fellows in the anti-loan sharking advocates of the time, who were driven by antisemitic sentiments and believed raising the legal limit would attract "reputable capital" and "men of character" to the lending market.[26] By 1925, 22 states had passed the USLL.[27] Since then, states have continued to make various amendments to usury laws, including by lowering the allowable rate in some instances.[28]

These state usury laws were the first regulations applicable to early forms of credit cards in the United States. Those usury laws were supplemented by various federal consumer protection laws first created in the Johnson, Nixon, and Ford administrations, including the Truth in Lending Act[29] (TILA) and the Equal Credit Opportunity Act[30] (ECOA). But in 1978, right when credit cards started to become more commonplace, state usury laws began a fairly rapid process of erosion, kick-started by a Supreme Court case, *Marquette National Bank of Minneapolis v. Frist of Omaha Service Corporation,* which held that national banks can use the rates permitted in the state in which they are headquartered (rather than the rates permitted in the state in which

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[22] *Id.*
[23] Hugh Rockoff, Prodigals and Projectors: An Economic History of Usury Laws in the United States from Colonial Times to 1900, NBER Working Paper, at 43 (May 2003), https://www.nber.org/system/files/working_papers/w9742/w9742.pdf.
[24] *Id at* 45.
[25] Daniel Platt, The Natures of Capital: Jewish difference and the Decline of American Usury Law, 1910-1925, The Journal of American History, Vol. 104, No. 4, at 874 (March 2018).
[26] *Id.* at 875.
[27] *Id.* at 877.
[28] For a survey of state usury laws, see Nat. Cons. Law. Center, Fact Sheet: State Annual Percentage Rates (APR) Caps for $500, $2,000, and $10,000 Installment Loans, Issue Brief (Nov. 2024), https://www.nclc.org/resources/fact-sheet-state-annual-percentage-rate-apr-caps-for-500-2000-and-10000-installment-loans/.
[29] Pub. L. No. 90-321, 82 Stat. 146 (1968).
[30] Pub. L. No. 93-495, 88 Stat. 1500 (1974).

the loan was made).[31] While banks still remained subject to state usury law in theory, *Marquette* permitted credit card banks to move headquarters to a state with the usury laws of their choosing, and then lend under those laws nationwide. Many major credit card banks relocated to Delaware, Nevada, South Dakota, and Utah, four states with notoriously permissive usury laws.[32] The Comptroller of the Currency supercharged this process under President Clinton when it allowed national banks to apply the state law of any branch, not just their home state.[33] This means national banks headquartered in New York or California can lend to borrowers anywhere in the country "out of" a branch in Utah or Delaware and effectively circumvent all state usury laws because those states have no caps.

Despite the watering down of state usury laws, two federal usury laws still apply to the credit card industry today. First, since 1980, the National Credit Union Act has prohibited charging interest on credit cards (and most other loans) above 15% APR.[34] The National Credit Union Administration (NCUA) has authority to temporarily increase the cap for an 18-month period, which the NCUA has done consistently since 1987 to increase the permitted rate to 18% APR.[35] Several credit unions have healthy credit card business lines under this 18% interest rate cap. Second, since 2006 the Military Lending Act (MLA) caps APRs for all loan types at 36% for active-duty military members and their dependents.[36] This is one of the main reasons why credit card banks refrain from lending above 36% APR—to do so, they would need to verify that every customer is not on active duty.

Regulation of the credit card market experienced an overhaul in 2009, right after the Financial Crisis. President Obama signed the bipartisan Credit Card Accountability Responsibility and Disclosure (CARD) Act on May 22, 2009, which received overwhelming support in both the House and Senate.[37] It requires lenders to underwrite to ensure consumers have an "ability to repay," restricts the amount of fees

[31] 439 U.S. 299 (1978). For a more detailed description of state parity laws passed in the wake of *Marquette,* see Levitin, *supra* note 21, at 438-440.
[32] Del. Code Ann. tit. 5, §§ 943, 953, 963, 965, 973 (2022); Nev. Rev. Stat. § 99.050 (2022); S.D. Codified Laws § 54-3-1.1 (2022); Utah Code Ann. § 15-1-1 (LexisNexis 2022).
[33] Levitin, *supra* note 21, at 88.
[34] 12 U.S.C. § 1757(5)(A)(vi)(I).
[35] See Nat'l Credit Union Admin., 24–FCU–02, Permissible Loan Interest Rate Ceiling Extended (2024); *see* Levitin, *supra* note 19, at n. 103 (describing how opinions like this have been in place since 1987).
[36] Military Lending Act, Pub. L. No. 109-364, § 670, 120 Stat. 2266–69 (2006) (codified at 10 U.S.C. § 987).
[37] The Credit CARD Act of 2009, Pub. L. No. 111-24, 123 Stat. 1734 (2009) (codified as amended in scattered sections of 15, 16, and 31 U.S.C.). The CARD Act passed 357-70 in the House and 90-5 in the Senate. *See* Actions - H.R.627 - 111th Congress (2009-2010): Credit CARD Act of 2009, CONGRESS.GOV, https://www.congress.gov/bill/111th-congress/house-bill/627/all-actions.

an issuer can charge during the first year after an account is opened, prohibited penalty fees (e.g. late fees) that were not "reasonable and proportional," placed limits on "over-the-limit" fees and other fees, and restricted circumstances under which banks can increase interest rates on existing customers. The Federal Reserve immediately issued rules implementing the CARD Act, which largely rendered the "ability to repay" provisions toothless[38] and created a "safe harbor" that cabined the impact of the late fee provisions.[39] The CARD Act did, however, almost entirely eliminate "over-the-limit" fees without impacting access to credit.[40] More recently, the Consumer Financial Protection Bureau (CFPB) finalized a rule to unleash the penalty fee provision by lowering the "safe-harbor" for late fees to $8,[41] which would save consumers an estimated $10.5 billion in fees every year.[42] In response to a legal challenge by bank lobbyists, CFPB Acting Director Russ Vought voluntarily vacated that rule on April 15, 2025.[43]

III. Analyzing Usury Proposals

The purpose of this paper is to use data in the Drechsler Report to assess, with more precision than ever before, the impact of various usury cap proposals on credit cards. In particular, I will be looking at the usury thresholds of 10% APR, 15% APR, and 18% APR.

The methodology of this paper is to replace real, observed interest spreads with hypothetical interest spreads under each usury proposal, and then determine whether banks' return on assets (ROA) remains positive in each FICO tier.

A. Data

The most important data in the Drechsler Report, for our purposes, is the "Profit components by account type and origination FICO score," which is copied below.[44]

[38] 12 CFR 1026.51(a)(1)(i)(limiting the ability-to-repay determination to whether consumers can afford the minimum payments, which are often a very small percentage (e.g. 2%) of the consumer's overall indebtedness).
[39] Currently, after inflation adjustments, 12 CFR 1026.52(b)(1)(ii) provides a safe harbor for $32 late fees, and $43 fees for subsequent late payments within 6 billing cycles.
[40] CFPB, CARD Act Report (2013), https://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf.
[41] 89 Fed. Reg. 19128 (March 15, 2025).
[42] *Id.* at 19194.
[43] Joint Motion for Entry of Consent Judgment, Chamber of Commerce v. CFPB, Case 4:24-cv-00213-P.
[44] Drechsler Report, *supra* note 1, at 60, tbl. 2.

Origination FICO	ADB Share (%)	Interest Spread (%)	Net Charge Off (%)	Interchange (%)	Reward (%)	Fee (%)	Operating Expense (%)	ROA (%)
Panel A: Borrowers								
600	1.30	21.28	9.35	2.91	2.15	5.13	7.52	10.64
620	2.71	20.44	8.92	2.69	2.15	4.36	6.35	10.41
640	5.34	19.84	8.06	2.53	2.09	3.68	5.55	10.71
660	8.89	18.45	7.43	2.39	2.00	2.87	5.19	9.35
680	14.38	16.62	7.09	2.28	1.90	2.17	4.97	7.24
700	14.62	15.55	6.41	2.45	2.07	1.99	4.86	6.76
720	13.48	14.32	5.72	2.69	2.31	1.92	4.70	6.28
740	11.66	13.14	5.04	3.01	2.63	1.89	4.60	5.84
760	9.43	11.96	4.43	3.46	3.05	1.91	4.53	5.37
780	7.17	10.86	3.82	4.17	3.69	2.01	4.50	5.08
800	5.31	9.72	3.17	5.10	4.54	2.16	4.46	4.84
820	3.43	8.74	2.45	6.01	5.59	2.44	4.21	4.98
840	1.90	7.77	1.65	6.90	6.81	2.68	3.95	4.98
850	0.39	7.22	1.27	7.55	7.40	2.86	3.95	5.05
Average (ADB-weighted)		14.55	5.75	3.12	2.72	2.31	4.84	6.79
Panel B: Transactors								
600	0.3	-	-	54.56	41.45	14.09	6.91	16.43
620	0.71	-	-	50.59	41.66	10.29	5.62	9.22
640	1.46	-	-	49.14	41.68	8.55	4.85	6.68
660	2.57	-	-	46.99	40.10	6.62	4.58	4.39
680	4.35	-	-	44.56	37.77	5.16	4.50	2.89
700	5.79	-	-	43.29	37.11	4.89	4.38	2.70
720	7.29	-	-	42.19	36.68	5.15	4.25	2.89
740	8.88	-	-	40.96	36.24	5.29	4.12	2.77
760	10.39	-	-	39.93	35.30	5.24	4.17	2.87
780	12.74	-	-	39.12	34.06	4.84	4.32	3.01
800	16.32	-	-	38.37	32.66	4.33	4.48	3.21
820	15.48	-	-	35.39	31.61	4.48	3.99	2.01
840	10.9	-	-	31.53	30.57	4.7	3.57	0.16
850	2.83	-	-	31.41	30.04	4.68	3.55	0.29
Average (ADB-weighted)		-	-	38.8	34.15	4.97	4.2	2.57
Panel C: All Users								
600	1.18	20.48	9.03	4.66	3.46	5.43	7.50	10.82
620	2.45	19.59	8.59	4.52	3.61	4.58	6.32	10.37
640	4.84	18.96	7.74	4.41	3.63	3.87	5.53	10.55
660	8.08	17.58	7.13	4.30	3.56	3.02	5.17	9.14
680	13.09	15.79	6.79	4.16	3.44	2.30	4.95	7.05
700	13.48	14.55	6.05	4.80	4.01	2.15	4.83	6.53
720	12.69	13.09	5.30	5.70	4.85	2.16	4.67	6.02
740	11.30	11.60	4.53	6.95	6.03	2.24	4.55	5.53
760	9.55	10.00	3.81	8.67	7.56	2.38	4.48	5.02
780	7.88	8.19	3.03	11.55	10.00	2.59	4.46	4.64
800	6.73	6.08	2.18	15.61	13.31	2.83	4.47	4.33
820	4.98	4.48	1.47	17.89	15.98	3.25	4.12	3.78
840	3.06	3.32	0.89	18.32	17.70	3.61	3.78	2.60
850	0.70	2.48	0.61	20.03	19.13	3.80	3.75	2.56
Average (ADB-weighted)		12.41	5.01	7.81	6.76	2.65	4.76	6.24

The report uses the Federal Reserve's Y-14M dataset, which includes data from twenty banks that have over 330 million individual credit card accounts covering more than 90% of the total credit card lending market in the United States. This is a dataset available to many researchers and most federal banking agencies. I encourage researchers with access to the dataset to perform more sophisticated analyses using the actual dataset instead of summaries that may introduce slight errors due to the use of rounded figures.

This table provides a breakdown of costs and revenue by FICO bins for all accounts originated in 2015-2017. The revenue figures are portrayed as a percentage return on average daily balance (ADB), and the costs are similarly provided based on a percentage of ADB so that they can be easily deducted from each other to produce the overall return on assets (i.e. profit) for customers in each FICO tier. The data includes interest rate spreads (difference between rate charged to consumer and FFR), charge-off losses to the bank (the bank's losses due to consumer defaults), interchange revenue (fees paid by merchants), fee revenue (fees paid by consumers including primarily annual fees and late fees), rewards costs, and operating expenses (including overhead costs and advertising budgets). This represents the full scope of cost and revenue sources facing credit card companies.

B. Assumptions

Before getting to the analysis, it is worth laying out a few premises and assumptions:

This paper uses interest spreads, not total interest income. As a general matter, very thin profit margins may not be enough to ensure that a bank continues lending to a given customer segment. Rather, we should only expect that banks will continue to lend to a customer segment if the banks are able to make a return on assets on that segment that is above a rate the banks pay to gain access to capital, or in circumstances where a bank is lending out its deposits, above a safe return on assets that banks could earn in their Federal Reserve bank accounts or other safe investments. In both cases, that is the Federal Funds Rate (FFR), which is currently set at 4.25-4.50% by the Federal Open Markets Committee (FOMC) of the Federal Reserve System.[45] The Drechsler Report builds this concept into the data by using "interest spread" over the FFR, not total interest income. That means we should expect that credit card banks will continue to lend to customer tiers for which they can earn a

[45] *See Open Market Operations*, *supra* note 13. During the time-period for this data set, the FFR was much lower and never exceeded 1.25%.

positive return on assets as calculated in the report and in this brief.[46] Notably, in the observed years of 2015-2017, the FFR was much lower,[47] but I am conservatively using 5% FFR for purposes of this paper.

We should combine transactor and borrower revenues and costs to determine the viability of each customer segment. The Drechsler Report helpfully splits out income and costs from borrowers and transactors for each FICO tier. This makes it easier to swap the real interest ROA with hypothetical ROAs under different usury caps because all of the customers in the borrower chart are paying interest (e.g., a 10% APR should produce a 5% interest spread from borrowers after accounting for a 5% FRR). However, when banks are making decisions on whether to open a credit card account, they know the customer's FICO score but not whether they will become a transactor or a borrower. For that reason, we need to look at the combined (transactor and borrower) revenue and cost figures for each FICO tier, weighted based on the percentage of total average daily balance that is held by transactors and borrowers in that tier.

I assume that banks will uniformly charge the usury rate. I take the most conservative position in assuming that banks will not charge interest to any customers below the APR usury caps. I assume that for a few reasons. First, the vast majority of credit cards have higher than an 18% APR today.[48] Second, to the extent that it is legal and produces profits, we can expect banks will charge up to the legal limit, and in fact, the existence of a usury rate can organize lenders to charge that exact rate.[49] I consider price uniformity in this context to be a good thing because consumers generally do not shop based on the interest rates for credit cards. It is nearly impossible to do so—interest rates are variable based on FICO score, and so credit card companies do not advertise specific rates applicable to individuals. Go to any comparison-shopping

[46] In other words, the real profits will be higher than the figures in this paper, because the FFR is already deducted from these ROA figures.
[47] In fact, until 2023, the FFR had not exceeded 5% since 2006. *See Open Market Operations*, *supra* note 13.
[48] Of the 628 credit cards included in the CFPB's Terms of Credit Card Plans Survey from January to June 2024, see *Terms of Credit Card Plans (TCCP) survey*, CFPB (Jan. 10, 2025), https://www.consumerfinance.gov/data-research/credit-card-data/terms-credit-card-plans-survey, only 173 included a purchase APR range that reached below 18%. Only 92 cards reached below 15%, and only 18 reached below 10%. Note that this assumption is more of a stretch for an 18% APR threshold than the 15% APR and especially the 10% APR threshold. Having said that, another reason for this assumption is necessity. There is no way to predict the exact interest spreads on FICO tiers if we presume some banks will charge less than 18%. However, this assumption seems reasonable, regardless of whether it proves an accurate prediction of the future, because it is conservative. If a bank charges less than 18% for some customers, it means the banks can do so and stay profitable, meaning consumers would save even more.
[49] For example, it is widely recognized that payday lenders uniformly charge the maximum interest rate allowed by state law.

website and you will see multiple credit card offers, each with interest rate *ranges.* There is no way to know whether a Chase Sapphire credit card with 19.99-28.24% interest or Capital One credit card with 19.24-29.24% interest will have a higher rate particular to an individual.[50]

The data used in this report is from 2015-2017. Many researchers look at pre-COVID data to ensure that the findings are relevant to predicting future outcomes, given the unique market distortions experienced during the COVID pandemic. For that reason, the data used by the Drechsler Report authors is 7-10 years old. There are a few ways in which this could affect the analysis in this paper. First, we know that interest spreads increased even more between 2015 and today, by about 400 basis points.[51] That means total savings estimates in this report should *under-count* total savings. Second, the FFRs were much lower in 2015-2017 than they are today. This should not present much analytical distortion given that I am analyzing interest spreads and not gross interest revenue, but nonetheless this is a significant market difference. I encourage researchers with access to the Federal Reserve's Y-14M dataset to perform similar analyses using data from 2024.

Interest rates are highly opaque, but rewards and annual fees are not; therefore, I do not expect banks to increase fees or reduce rewards unless necessary to stay profitable. The most salient terms that consumers shop for now (and will continue to shop for after a usury rate is applied) are rewards and annual fees. For this reason, I am assuming that banks are unlikely to lower rewards or increase annual fees to increase per-customer profit margins for customer segments that are already profitable. If they did, they would lose volume business to competitors.[52] Of course, if a

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[50] This is a real example. *See Earn Cash Back, Pay Down Debt, or Rake In the Miles — These Nerd-Approved Cards Have Something for Everyone*, NERDWALLET (last viewed on April 15, 2025), https://www.nerdwallet.com/m/credit-cards/excellent-credit-cards.

[51] Dan Martinez & Margaret Seikel, *Credit Card Interest Rate Margins at All-Time High*, CFPB (Feb 22, 2024), https://www.consumerfinance.gov/about-us/blog/credit-card-interest-rate-margins-at-all-time-high.

[52] To be clear, this is an idealized analysis and credit card banks may reduce rewards further to increase per customer profit if they believe they can keep customers when doing so. These would be independent business decisions that the usury law would not require, directly or indirectly. Further, we can be confident that this effect would likely be minimal because research has shown that pass-through rates are lowest when a market is less competitive (like the credit card market) and the money is passed through from a less salient cost (interest) to a more salient item (rewards). Sumit Agarwal, et. al., A Simple Framework for Estimating Consumer Benefits from Regulating Hidden Fees, Journal of Legal Studies, vol. 43, S239 (June 2014). In fact, research into prior reductions in credit card fees have shown that the industry absorbed the lost revenue without corresponding increases in costs elsewhere. CFPB, CARD ACT REPORT: A REVIEW OF THE IMPACT OF THE CARD ACT ON CONSUMER CREDIT CARD MARKET, 5 (2013) (finding that when back-end fees were reduced by the CARD Act, average costs declined by 194 basis points on net);

bank cannot break even on a customer segment without doing so, they might reduce rewards or increase fees for that segment. That is especially the case if the reason the segment is not viable is a federal usury rate, which other banks would also have to account for and thus would similarly have to compensate for.

The nature of competition in the credit card industry is one of the main reasons that a usury rate is warranted. The credit card market is concentrated at the top ten credit card issuers, which comprise 80% of total market share.[53] And we have long seen supracompetitive profit margins in this market—the Federal Reserve posts the ROA of large US credit card banks every year and they are regularly 3 or more times higher than the average bank ROA.[54] More recent research has revealed just how much more margin banks charge on credit cards than other types of credit. A 2024 report by the Consumer Financial Protection Bureau showed that the difference between the Treasury Prime Rates set by the Federal Reserve Board and average credit card interest rates spiked over the 10-year period between 2013 and 2023. In 2013, the interest spread was only 9.6%, and in 2023 it was 14.3%.[55] And the more recent Drechsler Report puts current interest spreads at over 18% the average FFR—much higher than the 2.25% spreads for commercial and industrial loans, 3% spreads for mortgages, and 4.21% spreads for the riskiest corporate bonds.[56] The Drechsler Report estimated an all-in average ROA for the three observed years at 6.24%, which is 5-6 times the typical bank ROA.[57]

While market concentration certainly can explain some of the excessive profit margins, these profit margins are *exceptional*. And there are community banks and credit unions offering lower rates that gain very little traction or market share.[58] I think the more important explanation for why profits are so high is that the primary revenue drivers –

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see also Sumit Agarwal et. al., Regulating Consumer Financial Products: Evidence from Credit Cards, Quarterly Journal of Economics, Vol. 130, Issue 1, p. 111-164 (Feb. 2015) (finding that the CARD Act saved $11.9 billion with no corresponding pass-through to other costs or reduction in lending volume).

[53] CFPB, THE CONSUMER CREDIT CARD MARKET, 4 (2023), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2023.pdf. The top twenty credit card issuers compromise 90% of the total market. *See* Drechsler Report, *supra* note 1, at 3.

[54] *See* FED. RSRV. BD. OF GOVERNORS, REPORT TO CONGRESS: PROFITABILITY OF CREDIT CARD OPERATIONS OF DEPOSITORY INSTITUTIONS 3 (2024), https://www.federalreserve.gov/publications/files/ccprofit2024.pdf; FDIC, *Insured Institution Performance*, 18 FDIC Q. 1, 15 (2024), https://fdic.gov/analysis/quarterly-banking-profile/qbp/2023dec/qbp.pdf (2023 ROA of 3.33 for credit card banks and 2023 ROA of 1.10 for all banks).

[55] Martinez & Seikel, *supra* note 51.

[56] Drechsler Report, *supra* note 1, at 1.

[57] *Id* at 7.

[58] CFPB Office of Markets, *Credit Card Data: Small Issuers Offer Lower Rates* (Feb. 16, 2024), https://www.consumerfinance.gov/data-research/research-reports/credit-card-data-small-issuers-offer-lower-rates/.

interest and interchange – are completely divorced from the competitive process. Consumers do not pay interchange fees and have no way to know what the interest rate will be before selecting the card. But consumers *do* have the ability to shop based on rewards programs and annual fees. For this reason, while interest spreads rose over the last 10 years, bank spending on rewards has increased significantly during that same time.[59] Credit card banks appear to be competing on salient terms (offering better rewards programs), while simultaneously raising prices on opaque price terms that are not subject to competitive pressures (interest rates). So, by setting interest rates at a uniform but reasonable rate, Congress would be standardizing an important term that competition is not currently reaching, while leaving the more salient terms that people can actually shop for – rewards and annual fees – to the competitive process.[60]

Advertising budgets are bloated and present an opportunity for cost cutting. Credit card banks spend 1-2% of assets each year on marketing, which is ten times the amount spent by other banks. For example, in 2023 Capital One's ($4 billion) and American Express's ($5.2 billion) annual advertising budgets were on par with the biggest marketers in the world like Nike ($4.1 billion) or Coca-Cola ($5 billion).[61] By comparison, Bank of America, a larger bank than Capital One or American Express but not a major credit card bank, had an advertising budget of only $1.9 billion.[62] The researchers for the Drechsler Report observed that marketing was one of the largest operating expense components, and that positive correlation between operating expenses and interest spreads suggest that credit card banks are increasing interest in order to pay for more advertising.[63] And the company highlighted that marketing represented about 20% of Capital One's total expenses as an example.[64] Therefore, even if usury laws created negative ROA in certain FICO tiers all things remaining equal, banks could adjust by reducing their advertising spending. If all banks had to do this simultaneously due to a federal law, no bank would be competitively disadvantaged.

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[59] Martinez & Seikel , *supra* note 51, at 102 (showing total redeemed rewards increasing from $23 billion in 2019 to $34 billion in 2022).

[60] *See, e.g.*, DUSTIN BECKETT, CFPB, PRICE COMPLEXITY IN LABORATORY MARKETS (2024), https://files.consumerfinance.gov/f/documents/cfpb_price-complexity-in-laboratory-markets_2024-04.pdf (summarizing then-existing research and presenting new laboratory findings to show that comparison shopping is less likely to reach a competitive overall price as one increases the price-term variables subject to comparison).

[61] Drechsler Report, *supra* at note 1, at 6.

[62] *Id.* at 29.

[63] *Id.* at 29-30.

[64] *Id.* at 67. This was 20% of all bank expenses, not credit card expenses, though credit cards represent the majority of Capital One's business.

To obtain an estimate for the advertising budgets allocatable to each FICO tier, I assumed 20% of the operating expense in each tier is devoted to advertising based on the Capital One estimate. This may over- or under-count, but is a reasonable stand-in in the absence of advertising budget figures broken down by tier.

The industry makes profit margin at every FICO tier. The data shows that at every FICO tier, ROA is positive. ROA for lower-FICO customers is exceptionally high, at over 10%, but ROA is also high for the highest-FICO customers, at 2.5%. While the credit card industry is sometimes described as poor customers subsidizing rich customers,[65] a more accurate description is that the credit card industry is making a lot of money off rich customers and making ***A LOT*** of money off poor customers. We are all subsidizing banks. Banks price credit cards individually and differentiate APRs, rewards programs, and fees based on a customer's risk profile to ensure profitability within every FICO tier.

This is an important observation for two reasons. First, we should not assume that a bank would use profits earned from certain customers to subsidize other customers who are projected to generate net losses. Banks would stop lending to customers who generate net losses. Second, this also means that where adjustments are necessary to make a FICO tier profitable after applying a usury rate, those adjustments will come from within that tier. So if a usury limit creates interest savings for consumers that banks need to offset with reduced rewards, the reductions and savings would both come from the same customer segment. And we should not expect rewards to be reduced in credit tiers that remain profitable after applying the usury limit.

Usury rates do not need to give extra space for profit to account for "systemic risk." The more sophisticated industry advocates might argue that credit card banks need extra margin to account for the systemic risk of increased defaults in times of recession. Credit card defaults can spike during times of recession, and banks may be pricing to ensure they will not lose money in recessions or will make enough money in good years to cover losses in bad years. Looking back at the last 40 years, charge-off rates for credit cards have fluctuated fairly minimally, except during the Great Recession where they doubled for a few years.[66] During that recession and again during the COVID-19 outbreak, ROA for credit card banks barely dipped negative for a

[65] Aaron Klein, Opinion, *America's Poor Subsidize Wealthier Consumers in a Vicious Income Inequality Cycle*, BROOKINGS (Feb. 6, 2018), https://www.brookings.edu/articles/americas-poor-subsidize-wealthier-consumers-in-a-vicious-income-inequality-cycle/.

[66] Drechsler Report, *supra* note 1, at 54, fig. 9.

couple quarters.[67] In the long-run, these brief dips did not jeopardize overall profitability at any credit tier. Thus, this need appears overblown, especially because banks are required to maintain a capital conservation buffer to weather brief financial stress.[68]

Preemptively calculating usury rates to account for rare and extreme recessionary conditions would punish customers in good times to guarantee profitability in bad times. Instead, Congress should address this systemic risk through a combination of (1) letting the rainy-day funds they already mandate perform the task those buffers were designed to perform, and (2) making the usury cap adjustable by a regulator to respond to recessionary conditions as needed, while simultaneously making it easier to increase rates when usury rates are adjusted. In the rare instance where a recession causes a couple quarters of negative ROA, banks can survive on the reserves they are required to keep. If, however, losses threaten longer-term profitability, policymakers can take temporary action to raise the usury rate to address that concern and even permit replenishment of appropriate levels of reserves. This would allow policymakers to base a decision to lift the usury rate on real-time information on the severity of a recession, the impact on profitability and capital reserves, the effect on the broader economy, the overall solvency of major credit card banks, and the effect that lifting the rate would have on consumers in or after a recession. For this reason, the analysis below does not price in margin for systemic risk.

C. Analysis

The following chart provides adjustments to the Drechsler Report's summary charts, replacing the ROA figures with ROA that banks would have received under a 10%, 15%, and 18% usury limit. It also provides expected consumer savings, and projected reductions in rewards value provided to consumers. The savings figures are calculated assuming borrowers carry a total average daily balance (ADB) of $1.05 trillion,[69] which

[67] Drechsler Report, *supra* note 1, at 71, fig. B7. During the COVID pandemic, ROAs fell but default rates also fell. ROAs went down because consumers were paying off credit card debt and paying less interest.
[68] *See, e.g.*, 12 CFR Part 217. For example, Capital One is required to maintain a 10% capital ratio, American Express is required to maintain 7%, and Discover Bank is required to maintain 6.5%. FED. RSRV. BD. OF GOVERNORS, LARGE BANK CAPITAL REQUIREMENTS, at 4 (2024), https://www.federalreserve.gov/publications/files/large-bank-capital-requirements-20240828.pdf.
[69] To obtain this figure, I started with the latest estimate of outstanding credit card balance of $1.21 trillion. FED. RSRV. BANK OF N.Y., *supra* note 2. I then used data in the Drechsler report to estimate the percent of that outstanding balance that was a transitory balance held by transactors before payment at the end of the month. In the Drechsler

is allocated among FICO tiers based on the average daily balance shares provided in the Drechsler Report. The rewards reduction is calculated assuming that banks will not reduce rewards if the tier remains profitable without cost-cutting measures. When it would not remain profitable, to achieve profitability the calculation conservatively assumes banks would first reduce rewards, and then if still necessary, would reduce its advertising budget as needed.

Report, *supra* note 1, at 59, tbl. 1, Panel B, the report provides data for accounts opened in January 2015. That subsample included 49.63 million borrowers with an average daily balance of $3,340.33 (totaling $165.78 billion), and 34.55 million transactors with an average daily balance of $750.32 ($25.92 billion total). The combined balance was $191.7 billion, of which borrowers accounted for 86.48%. If that is still the proportion, the total current average daily balance *of borrowers* incurring interest is $1.05 trillion.

10% APR Cap (or 5% + FFR)							
FICO Tier	Industry's Return on Assets (ROA) after rate cap (%)			Current Rewards & Ad Spend (% avg daily balance)		Consumer Impacts of Usury Rate (billions $)	
	ROA from Borrowers[70]	ROA from Transactors[71]	Combined ROA before cost-cutting[72]	Combined Rewards Cost[73]	Combined Advertising Expense[74]	Savings[75]	Rewards Reduction[76]
600	-5.98	16.43	-5.12	3.46	1.50	2.22	0.49
620	-5.37	9.22	-4.80	3.61	1.26	4.39	1.07
640	-4.49	6.68	-4.03	3.63	1.11	8.32	2.13
660	-4.36	4.39	-3.98	3.56	1.03	12.55	3.48
680	-4.51	2.89	-4.17	3.44	0.99	17.54	5.45
700	-3.90	2.70	-3.52	4.01	0.97	16.20	5.73
720	-3.12	2.89	-2.65	4.85	0.93	13.19	4.07
740	-2.37	2.77	-1.82	6.03	0.91	9.97	2.49
760	-1.64	2.87	-0.98	7.56	0.90	6.70	1.13
780	-0.83	3.01	0.00	10.00	0.89	4.41	NA
800	0.09	3.21	1.10	13.31	0.89	2.63	NA
820	1.20	2.01	1.54	15.98	0.82	1.35	NA
840	2.17	0.16	1.22	17.70	0.76	0.55	NA
850	2.79	0.29	1.46	19.13	0.75	0.09	NA
All	Avg: -2.88%[77]	Avg: 2.61%[78]	Avg: -2.15%[79]	Avg: 6.76%	Avg: 0.95%	Sum: $100.31	Sum: $26.8

[70] Calculated by replacing interest spreads in the Drechsler Report with 5%, and then re-calculating ROA. Drechsler Report, *supra* note 1, at 60, Tbl. 2, Panel A, "Interest Spread (%)."
[71] These figures were taken directly from Drechsler Report. *Id.* at 60, Tbl. 2, Panel B, "ROA (%)."
[72] This is a weighted average ROA based on the percentage of each tier's total ADB that is held by transactors and borrowers. The ADB shares in the Drechsler Report are the percent that each tier has of the total transactor or borrower ADB, which is not the same thing. *Id.* at 60, Tbl. 2, Panel A & B, "ADB Share (%)." For example, the borrower ADB share for FICO 600 is 1.3% because 1.3% of all borrower balances are in that FICO tier. But, per the below formula, 97% of ADB in FICO tier 600 is held by borrowers. I calculated these percentages using an estimate of borrowers' overall share of credit card balance, 86.48%, *see, supra* note 67. The formula is: (Borrower ADB Share * 0.8648) / ((Borrower ADB Share * 0.8648) + (Transactor ADB Share * 0.1352)). I used the percentages from that formula to create a weighted average of the ROA in each tier between the ROAs for borrowers and transactors.
[73] These figures were taken directly from Drechsler Report. *Id.* at 60, Tbl. 2, Panel C, "Reward (%)."
[74] Calculated assuming ad spend is 20% of operating costs. *Id.* at 60, Tbl. 2, Panel C, "Operating Expense (%)."
[75] This is calculated multiplying the difference between 5% and the interest spreads in the Drechsler Report by the tier's average daily balance share of the estimated total ADB for borrowers, which is $1.05 trillion. *See supra* note 67.
[76] For tiers where the negative combined ROA exceeds the rewards expenditure by ADB (FICO tiers 600-680), these figures are calculated by multiplying rewards expenditure by ADB by the $1.21 trillion in total outstanding credit card debt. For tiers where the negative combined ROA does not exceed the rewards expenditure by ADB (FICO tiers 700-760), these figures are calculated by multiplying the estimated negative combined ROA by the $1.21 trillion total. Where combined ROA is estimated to be positive (FICO tiers 780-850), I assume no rewards reductions.
[77] Weighted average based on ADB share within borrower subsegment. *Id.* at 60, Tbl. 2, Panel A.
[78] Weighted average based on ADB share within transactor segment. *Id.* at 60, Tbl. 2, Panel B.
[79] Weighted average based on combined ADB share. *Id.* at 60, Tbl. 2, Panel C.

15% APR Cap (or 10% + FFR)							
FICO Tier	**Industry's Return on Assets (ROA) after rate cap (%)**			**Current Rewards & Advertising Spending (% avg daily balance)**		**Consumer Impacts of Usury Rate (billions $)**	
	ROA from Borrowers	ROA from Transactors	Combined ROA before cost-cutting	Combined Rewards Cost	Combined Advertising Expense	Savings	Rewards Reduction
600	-0.98	16.43	-0.37	3.46	1.50	1.54	NA
620	-0.37	9.22	0.01	3.61	1.26	2.97	NA
640	0.51	6.68	0.76	3.63	1.11	5.52	NA
660	0.64	4.39	0.80	3.56	1.03	7.89	NA
680	0.49	2.89	0.60	3.44	0.99	10.00	NA
700	1.10	2.70	1.19	4.01	0.97	8.52	NA
720	1.88	2.89	1.96	4.85	0.93	6.11	NA
740	2.63	2.77	2.64	6.03	0.91	3.84	NA
760	3.36	2.87	3.29	7.56	0.90	1.94	NA
780	4.17	3.01	3.92	10.00	0.89	0.65	NA
800	5.09	3.21	4.48	13.31	0.89	-0.16	NA
820	6.2	2.01	4.47	15.98	0.82	-0.45	NA
840	7.17	0.16	3.86	17.70	0.76	-0.44	NA
850	7.79	0.29	3.80	19.13	0.75	-0.11	NA
All	Avg: 2.12%	Avg: 2.57%	Avg: 2.18%	Avg: 6.76%	Avg: 0.95%	Sum: $47.81	Sum: $0.00

18% APR Cap (or 13% + FFR)							
FICO Tier	Industry's Return on Assets (ROA) after rate cap (%)			Current Rewards & Advertising Spending (% avg daily balance)		Consumer Impacts of Usury Rate (billions $)	
	ROA from Borrowers	ROA from Transactors	Combined ROA before cost-cutting	Combined Rewards Cost	Combined Advertising Expense	Savings	Rewards Reduction
600	2.02	16.43	2.52	3.46	1.50	1.13	NA
620	2.63	9.22	2.89	3.61	1.26	2.12	NA
640	3.51	6.68	3.64	3.63	1.11	3.84	NA
660	3.64	4.39	3.67	3.56	1.03	5.09	NA
680	3.49	2.89	3.46	3.44	0.99	5.47	NA
700	4.10	2.7	4.02	4.01	0.97	3.91	NA
720	4.88	2.89	4.72	4.85	0.93	1.87	NA
740	5.63	2.77	5.33	6.03	0.91	0.17	NA
760	6.36	2.87	5.85	7.56	0.90	-1.03	NA
780	7.17	3.01	6.27	10.00	0.89	-1.61	NA
800	8.09	3.21	6.51	13.31	0.89	-1.83	NA
820	9.20	2.01	6.23	15.98	0.82	-1.53	NA
840	10.17	0.16	5.44	17.70	0.76	-1.04	NA
850	10.79	0.29	5.21	19.13	0.75	-0.24	NA
All	Avg: 5.11%	Avg: 2.57%	Avg: 4.77%	Avg: 6.76%	Avg: 0.95%	Sum: $16.31	Sum: $0.00

A 10% APR cap would produce over $100 billion in annual savings, which would be concentrated among the mid-tiers of FICO 640-740 primarily because those are borrowers carrying the largest balances. A 15% APR cap would produce $48 billion in annual savings, which would be similarly concentrated for the same reason. An 18% APR cap would produce significantly less annual savings of only $16 billion on net, which would be concentrated in the FICO 640-700 range.

Because we expect banks to uniformly charge the usury rate, in some circumstances customers would experience negative interest savings. For the 15% cap, this effect is fairly marginal with only a $1 billion loss for customers with FICO 800 or higher. An 18% cap could produce $7 billion in annual losses spread across customers with FICO above 760. The 10% cap would not see this effect because very few card companies charge a rate that low. This effect would be reduced, or even nullified, if banks choose to compete based on interest rates below the usury rate.

Notably, at an 18% APR cap, banks would still produce higher ROA at every FICO tier including 600-620 (2.52%), than the bank average of 1.11%.[80] The total ROA would be 4.77%, far above the bank average. At a 15% APR cap, credit cards would generate about double the bank average ROA. Banks would generate positive ROA at every tier except tier 600, which is close enough to break even (-0.37%) that we would expect very minimal cost cutting to ensure minimal impact. The industry spends about 1% of average daily balance on marketing, so a marginal reduction of advertising spending could make the 600 FICO tier profitable. For that reason, under both the 18% and 15% proposals, we expect that lenders would continue to lend to these tiers at the current volumes, and that lenders would not need to increase annual fees or decrease rewards in order to maintain adequate profitability.

The 10% APR cap would produce $100 billion in savings every year; however, *all else equal*, it appears that many FICO tiers would not generate enough returns to be viable. In particular, only credit tiers above FICO 780 would be profitable assuming the existing cost outlay in the industry. FICO scores below 700 would typically produce -4.00% ROA.

This means the industry would need to adjust. Banks could find efficiencies and cut marketing costs. They could also maintain viability at every FICO tier, except one (600), by reducing rewards by about $27 billion in total. For customers with below FICO 700, this would likely mean rewards would be eliminated altogether (these customers would save $45 billion in interest in exchange for that loss). As noted above, we should only expect a reduction of rewards to come from the FICO tiers with negative ROA, which is at approximately FICO 760 and below. In each tier, the interest savings would exceed the rewards reduction by at least three times.[81]

At FICO 600 and below, cuts to rewards and ad spending would not do enough to maintain viability. In FICO tier 600, after eliminating rewards and ad spending, the tier would still be slightly in the red. That means, at that risk-level, we might see increases in other fees or a reduction in lending. Having said that, lending at these risk levels is

[80] Press Release, *FDIC-Insured Institutions Reported Return on Assets of 1.11 Percent and Net Income of $66.8 Billion in the Fourth Quarter*, FDIC (Feb. 25, 2025), https://www.fdic.gov/news/press-releases/2025/fdic-insured-institutions-reported-return-assets-111-percent-and-net.

[81] Furthermore, if competitive pressure does not prevent banks from padding returns, there is enough current rewards spending that banks could bring average ROA to above 1.11 (the national bank average) at every tier. Were that to occur, banks would still be providing rewards at most tiers, and the interest savings would still exceed rewards lost at all tiers.

already fairly minimal.[82] Only 12% of Americans have FICO scores below 600.[83] And at these risk levels, credit cards resemble predatory lending with default rates exceeding 10%[84] and consumers who do not default often falling into debt cycles.[85]

In sum, the 10% usury cap would produce the most *net* benefit, followed by the 15% cap, and then the 18% cap, but the 10% usury cap would involve more business model adjustment and some reduction in lending to customers with FICO scores below 600.

Lastly, under every proposal, a usury cap would flip the current dynamic of banks earning much more ROA from low-FICO customers than high-FICO customers. For example, in the Drechsler Report, ROA from customers in the 600 FICO tier averaged 10.82%, while those in the 850 FICO tier only averaged 2.56%. One of the main critiques of the credit card market is that it forces poor people to subsidize rich people.[86] As noted above, it is more accurate to say that banks make money from all customer categories, but they do charge poor people vastly more than rich people even after accounting for different credit risks. This raises fundamental questions about whether credit card companies are really conducting "risk-based pricing," or instead price discrimination or differential pricing masquerading as risk-based pricing. Regardless, any of the proposed usury caps would flip that trend line – lowering interest cost would result in higher ROAs at higher FICO tiers, and lower ROAs at lower FICO tiers. It would also flatten the differences among FICO tiers, so that the differences in ROA among tiers is less dramatic (e.g. under an 18% cap, ROA for FICO tier 600 would be 2.73% and ROA for FICO tier 850 would be 4.29%).

[82] Drechsler Report, *supra* note 1, at 69, fig. B5; *Id.* at 73, Tbl. C3.
[83] Milica Aleksandric, *The Average Credit Score by Age, Race, State, and Income,* FinMasters (Feb. 15, 2024), https://finmasters.com/average-credit-score/.
[84] Drechsler Report, *supra* note 1, at 49, fig. 4.
[85] 97% of consumers in this tier are "borrowers" and cannot pay off their balance every month, despite the fact that credit limits in this tier are very low. *See supra* note 70.
[86] Klein, *supra* note 65.

Conclusion

Astronomical profit margins in the credit card market suggest a market failure. While more competition could be helpful, that cannot resolve the fundamental problem that the two primary revenue drivers – interest and interchange – are impossible for consumers to shop over. More competition is likely to affect salient terms like annual fees and rewards, but unlikely to reach interest rates. For that reason, it is time for Congress to standardize interest rates by mandating a reasonable rate.

Based on the analysis above, Congress has three very good options that would all preserve the viability of credit card business models and save Americans billions. Contrary to critics' claims, the impact on lending volumes would be minimal because within every risk tier, there is enough profit margin and costs to cut that banks could maintain profitability at almost every tier under each proposed usury cap. Though these would be big cuts to interest rates, keep in mind that credit card lenders have other major revenue sources that other loan types do not (i.e. interchange), and even 10% APR would be very expensive for other loan types.

When selecting which cap to pursue, here are the core tradeoffs:

10% Cap (saves $100 billion annually): A 10% cap saves the most money by far – more than double the next option. It would require reducing rewards to customers with lower FICO scores by about $27 billion, but those adjustments might be worth it because customers in every tier would save far more (at least 3x) in interest than they would lose in rewards. Customers with higher FICO scores would not lose any rewards. Customers with FICO scores below 600 may see decreased lending volumes, which would be a mixed result because credit cards most resemble predatory lending for these customers.

15% Cap (saves $48 billion annually): A 15% cap saves a large sum of money and would not require any adjustments to rewards. We should not expect lending volumes to be affected either. It appears this option produces about as much benefit as one can without requiring business model adjustments.

18% Cap (saves $16 billion annually): An 18% cap saves less money, and some customers with higher FICO scores could potentially pay more in interest if banks coordinated around the cap. The increased cost to those customers

would be offset by even more savings to customers with lower FICO scores. This proposal should not affect rewards or lending volumes at all or require any reduction in operating cost or ad budgets.

As a final note, I recommend that Congress do four things when setting a rate, regardless of which it chooses.

First, Congress should set the usury rates not as a pure cap, but as a cap over FFR (e.g. instead of a 10% rate, use 5% + FFR). A spread-based usury limit is more likely to ensure business model viability in times of high Fed rates. Conversely, a rate set to maintain viability during a time of moderately high rates (as is the case today), would build in more spread than necessary for times when rates are lower.[87]

Second, Congress should give a regulator emergency authority to raise the cap during times of economic recession, so that the baseline usury rate does not have to build in margin to account for the "systemic risk" of an economy-wide default spike. To do this, Congress could use the National Credit Union Act as a model, which gives the NCUA authority to increase the 15% usury cap for credit unions in certain circumstances. However, to make sure agencies do not follow the NCUA's lead and permanently increase the rate, Congress should clarify that the authority only applies when card defaults are spiking.

Third, Congress should consider adjustments to the CARD Act to ensure that when usury caps are temporarily raised, credit card banks can quickly increase rates on existing cards. The existing protections around rate changes would become mostly unnecessary if rates are standardized, and flexibility to increase rates in an emergency when the legal rate is raised (as described in the previous paragraph) may help to address systemic risk.

Fourth, Congress can make the primary source of small business capital much cheaper by ensuring that the rate cap reaches business credit cards as well as consumer credit cards. To do this, Congress will need to avoid borrowing terms such as "credit," "creditor," or "credit card" from the Truth in Lending Act when crafting the legislative text.

[87] The analysis of a 15% cap in this paper could apply to a 10% + FFR usury rate because it is based on the current FFR of 5%. Similarly, the analysis for the 10% cap applies to a 5% + FFR cap and the analysis for the 18% cap applies to 13% + FFR.