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SFA Research Corner

Mandatory Credit Card Rate Cap: Signal and Substance

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President Trump's recent call for a temporary, one-year 10% cap on credit card interest rates comes at a time when credit card delinquencies have risen sharply. According to the [New York Fed Consumer Credit Panel/Equifax](#), the share of balances that are 90 days or more delinquent increased from 7.47% in 2022 to 12.41% in the third quarter of 2025, as Americans continue to rely more heavily on credit cards. Outstanding balances now total roughly $1.2 trillion, up $67 billion from a year ago.

A Familiar Debate

Trump's proposal is not unprecedented. Similar rate-cap ideas have been advanced across the political spectrum for more than two decades, with limited legislative success. In 2025, Senator Bernie Sanders introduced the [10 Percent Credit Card Interest Rate Cap Act](#), which would impose a temporary nationwide 10% APR ceiling. Earlier in December 2023, Senate Democrats introduced the [Predatory Lending Elimination Act](#), which would extend the Military Lending Act's 36% all-in APR cap to all consumers, not just active duty servicemembers. Other proposals in recent years have suggested caps between 10% to 18%, and broader "national usury" concepts—including a 36% cap—have appeared intermittently since at least 2019. None have become law, reflecting persistent concerns about legal authority, credit availability, and market structure.

Historically, [Congress](#) has addressed consumer credit concerns through more targeted reforms. The Credit CARD Act of 2009 emphasized disclosures, fee practices, and billing protections while preserving risk-based pricing, and existing interest-rate caps are similarly narrow, applying primarily to specific populations—most notably the Military Lending Act's 36% cap, mentioned above, and the Servicemembers Civil Relief Act's 6% cap—rather than applying universally to all credit cards.

Form and Scope Matters

Against that backdrop, many details of the current proposal remain unclear, including how a cap would be implemented, which charges it would cover, and how it would interact with existing state and federal banking laws. The proposal also suggested a relatively short timeline, with January 20 cited the effective date.

In the absence of clear legislative detail, some policymakers have suggested other ways to advance the President's objectives, such as increased supervisory scrutiny or the use of unfair, deceptive, or abusive acts or practices standards. In practice, however, these approaches face meaningful legal and operational constraints in the absence of clear statutory authority. As a result, such tools are being viewed by some as signaling mechanisms rather than durable policy substitutes for legislation, and their potential impact remains difficult to assess absent further clarity.

Subsequent comments from White House economic advisor Kevin Hassett have pointed to alternative approaches, including limiting a rate cap to certain borrower segments or relying on voluntary participation rather than legislation. In practice, a voluntary, time-limited cap would resemble an introductory or "teaser" rate—a familiar structure in credit card lending and securitization. TD Cowen has described this approach as a potential "smart compromise," particularly if applied only to new purchases, with rates resetting to variable levels thereafter. While such structures affect bank earnings and securitization cash flows, the impact is defined and manageable within existing risk and funding frameworks—unlike a broad, mandatory cap that would impose inflexible pricing constraints across portfolios[1].

Implications for Credit Card ABS

By contrast, a broad mandatory 10% cap would affect not only bank earnings but also how credit card lending is funded, particularly through the securitization market. In a typical credit card securitization, banks transfer receivables into trusts that issue bonds to investors. Those bonds are repaid from the interest and fees paid by cardholders, after covering trust expenses such as credit losses, fraud, and servicing costs. The difference between incoming interest and fee revenue and these costs is known as excess spread—the cash buffer that absorbs losses and protects bondholders.

That buffer exists because credit card interest rates are designed to cover the full economics of unsecured lending. As veteran credit card ABS analyst William Black explains in his LinkedIn newsletter, credit card interest rates are not arbitrary but reflect "funding costs, expected credit losses, fraud, servicing expenses, regulatory capital requirements, and a return on equity."

A mandatory interest-rate cap would reduce the interest and fee income flowing into securitization trusts, shrinking excess spread. When excess spread falls below required thresholds, transactions may no longer generate sufficient income to cover losses, operating expenses, and reserve requirements. In those cases, early amortization triggers can be activated, forcing the trust to begin repaying investors sooner than planned.

The impact would vary significantly by borrower credit quality. J.P. Morgan estimates that a 10% cap would cut yields on prime and super-prime credit card ABS roughly in half—from about 26% to 13%—reducing excess spread from approximately 18% to 5%. While charge-offs in these portfolios typically average under 3%, the reduced cushion would leave less capacity to absorb higher losses or economic stress. For nonprime credit card ABS, where charge-offs are materially higher, J.P. Morgan estimates that excess spread would turn negative, meaning interest income would no longer cover losses and expenses.

During past downturns, banks have at times supported securitizations by absorbing costs at the sponsor level, either through capital injections or by selling receivables into trusts at a discount, according to Deutsche Bank Research. While such measures can provide temporary stability, they largely shift costs back to the bank and are not a durable solution when pricing is structurally constrained.

Research from Citi, J.P. Morgan, and Morgan Stanley, along with academic and policy studies, points to a consistent pattern when pricing flexibility is constrained: lenders tend to adjust through non-price measures. These include tighter underwriting, lower credit limits, fewer approvals, and more selective lending. Under these dynamics, access for prime borrowers is often preserved, while younger, lower-income, or less credit-established borrowers experience the greatest pullback.

[1] Following the announcement of a proposed 10% cap, at least one market participant announced plans to launch credit card products with introductory purchase APRs capped at an 10% rate for a fixed one-year period, applicable only to new purchases.

Conclusion

At present, credit card ABS markets do not appear to be pricing in near-term stress. Secondary-market risk spreads have remained stable, according to Bank of America Research distributed last week, consistent with the view in some quarters that the proposal carries a low probability of near-term implementation. Although the proposal deadline has passed without resolution, the issue itself has not receded. President Trump's has continued to emphasize housing affordability as part of his broader policy messaging, including remarks at the Davos World Economic Forum, where he urged lawmakers to pursue a temporary 10% cap. As Trump put it, "one of the biggest barriers to saving for a down payment has been surging credit card debt," explicitly connecting affordability to credit card debt.

Ultimately, the impact of a mandatory 10% credit card interest rate cap would depend on its final design, scope, and how it is implemented in practice. While the legislative path remains uncertain, the issue itself is unlikely to fade from view. We will continue to follow developments closely and assess their potential implications for credit availability, securitization markets, and consumer borrowing conditions.