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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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After Friday's close, President Trump posted on Truth Social that he is calling for a one-year cap of 10% APR on credit cards starting January 20. This is an idea he had floated during the 2024 campaign. We discuss ways in which this could be implemented. While we think none of these options are easy, we believe this issue could have some staying power and create a headline risk to the credit card industry for some time.

The Trump administration appears to have **three options for implementing a potential APR cap** – legislation, regulation, or other paths. In our view, all three options will be challenging for the administration, but this is an issue that has some political potency. Regardless of whether the administration succeeds in enacting it, we think the credit card industry and banks could face headline risk for the foreseeable future.

- **Regulation** – We do not believe that regulators currently have the authority to impose any type of fee cap. Unfair, Deceptive, or Abusive Acts or Practices authority and the Truth in Lending Act give regulators the authority to set standards on disclosures and/or marketing practices but not the ability to set rates. If the administration tries to implement a cap via regulation, the banking industry would probably sue and, we think, prevail.
- **Legislation** – Congress can try to legislate. Even though this idea has some bipartisan support (the concept has been supported by Republicans like Senator Josh Hawley (Missouri) and Democrats like Senators Elizabeth Warren (Massachusetts) and Bernie Sanders (Vermont)), the proposal faces high hurdles to pass Congress. The industry has some key allies on Capitol Hill who can block the President's proposal. Neither Republican chairmen of the House Financial Services Committee nor the Senate Banking Committee made statements in support of the proposal over the weekend. In our view, silence equals opposition, and this is likely a good indicator of how most Republicans in Congress view the issue.
  - **Compromise?** Although a 10% APR cap is highly unlikely to pass Congress, we acknowledge that legislation that would cap rates at a higher level (e.g., 20% or 30%) could gain broader support but would likely face significant opposition. The Military Lending Act (MLA) sets a 36% cap on various consumer loans made to active-duty members of the military. The MLA could be a template for a broader cap if Congress chooses to pursue this issue.
  - **Temporary?** Trump's proposal is for just one year, but if we are wrong and Congress enacts some form of a temporary cap on credit card interest rates, it could have staying power. Enacting a new policy is difficult, while extending it is easier.
- **Backdoor methods** – The administration could pressure the credit card industry by indirect means such as heightened scrutiny for M&A applications. This could be consideration for smaller banks and card issuers that might want to consider future mergers. Also, the government could pressure companies that have contracts with the federal government. President Trump issued an Executive Order this past week that calls for limits on buybacks, dividends, and executive compensation of defense contracts that fail to deliver new systems and weapons in a timely manner. Credit card issuers could be subject to similar treatment. Banks have different relationships with the federal government than defense contractors, so this impact of this option would likely be of a narrower scope.

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