Credit card issuers aren’t done raising rates, despite Fed pause

Card rates won’t rise as sharply as in the past 18 months, but they’re likely to keep trending higher for a while longer, says LendingTree's Matt Schulz.

Gabriella Cruz-Martinez
·Personal finance writer

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Americans with credit card debt won’t see relief even after the Federal Reserve decided against hiking its benchmark rate last week.

Their situation may even get a bit worse next year, at least temporarily.

“Though inflation has probably peaked, delinquencies are rising and so are debts. Things are unpredictable, and when that’s the case banks tend to protect themselves by either maintaining rates at really high rates or taking them up a little higher,” Matt Schulz, chief credit analyst at LendingTree, told Yahoo Finance.

Fed policymakers last week kept the range for the federal funds rate unchanged at a 22-year high between 5.25% and 5.5%. That marked the third consecutive pause since July, when the central bank last raised rates. Fed officials also signaled that they expect to cut the benchmark rate by three-quarters of a point next year.

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While rate cuts by the Fed would eventually reduce interest for credit cards, which march in sync with the central bank’s rate, folks with debt will still face some pain next year.

A display of credit cards accepted for use is seen on a door as a shopper steps out of a store on in Monterey Park, Calif. (Frederic J. Brown / AFP) (FREDERIC J. BROWN via Getty Images)

Expect tight lending standards

Outstanding credit card balances surpassed $1 trillion this year for the first time ever, as credit card interest rates rose to their highest level in nearly 40 years. According to Bankrate, the average APR this week was 20.72%.

December also marked the 22nd consecutive month in which APRs on new credit card offers have risen, LendingTree found, even despite the Fed's latest pause. At the same time, nearly 4 in 10 cards (39%) had possible APRs of 29.99% or higher this month, while 13% had interest rates above 30%.

By comparison, in September 2019, just 2% of roughly 200 cards reviewed by LendingTree carried APRs of 29.99% or higher, with just 1% above the 30% mark — a threshold many credit card issuers historically have avoided. Except, that is, for this year.

Before its third consecutive rate pause, the Fed had raised the federal funds rate 11 times since starting one of its most aggressive tightening cycles in March 2022. The effort was intended to cool inflation, but it also significantly increased borrowing costs for cardholders.

“Credit card interest rates have risen like crazy for the past two years. The sum total of all of those increases made a really big difference on the budgets of people who had credit card debt,” Schulz said.

So why are credit card interest rates not letting up even though Fed hikes may be done?

For one, as interest rates have risen over the past two years, some cardholders have been having a harder time paying off their debts. The delinquency rate on credit cards reached 2.98% in the third quarter, up from 2.77% the previous quarter, according to the Fed. It was also the highest level since 2012, when it was 2.92%.

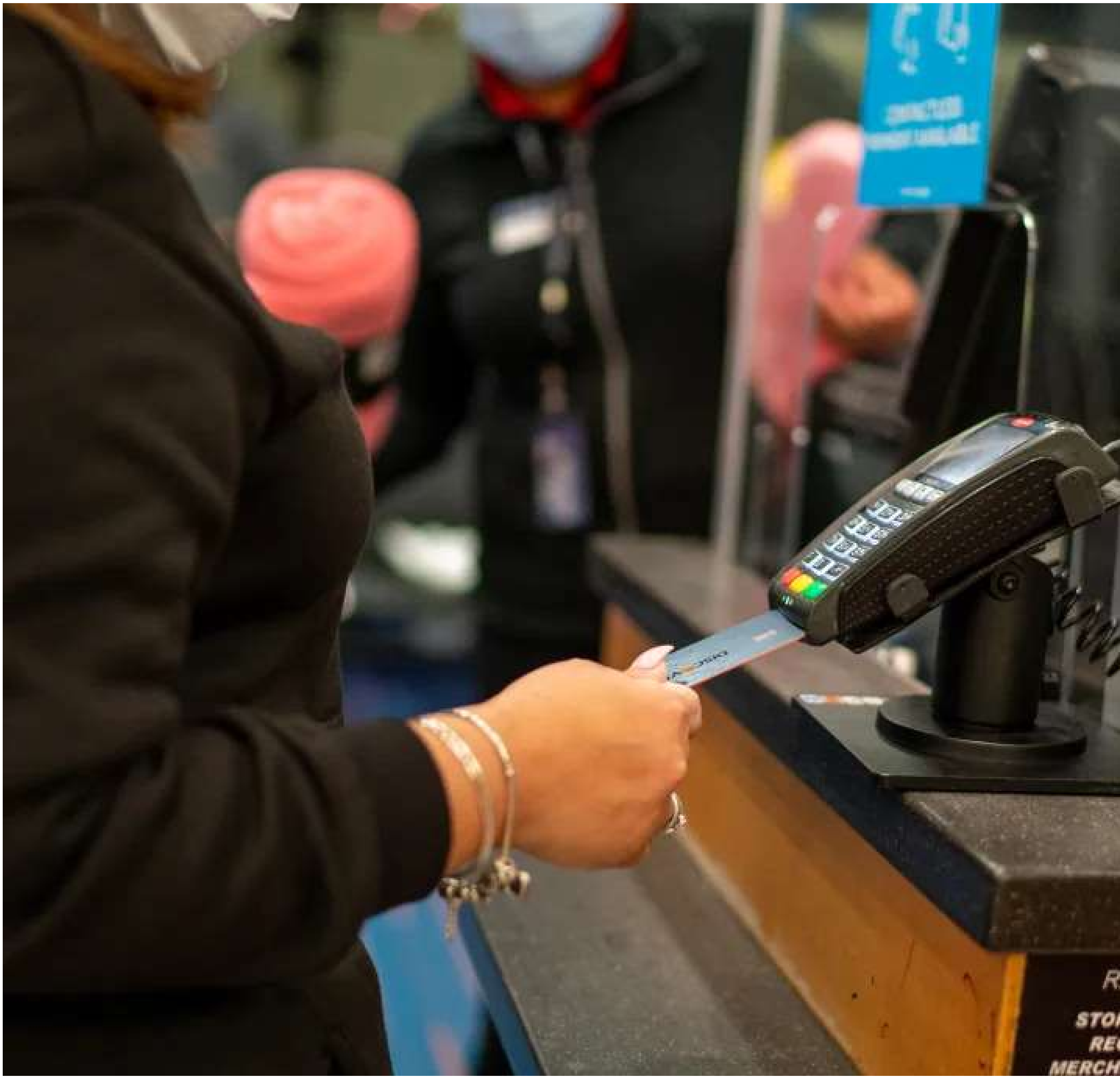
And with the federal pause on student loans having ended this year, more folks are struggling to keep up with their debts. According to the Department of Education, nearly 9 million borrowers missed their first student loan payment.

Those added risk factors signal to banks big and small to keep their lending standards tight, Schulz noted, a trend that’s likely to continue going into 2024.

In fact, as of the third quarter borrowers with FICO scores under 680 were less likely to be approved for a credit card compared to those with scores of 720 or above, according to the Fed.

“The truth is, we’re still in a time where banks are tightening their lending standards and making it harder to get a credit card and other types of loans,” Schulz said. “So when there’s a time of a lot of uncertainty, rising delinquencies, debts are rising and a bunch of other economic factors … it shouldn’t be a surprise that card issuers err on the side of slightly higher rates, rather than moving down.”

'You still have options'



An air traveler uses a credit card to pay for items at a retail shop in John F. Kennedy International Airport in New York City. (Robert Nickelsberg, Getty Images) (Robert Nickelsberg via Getty Images)

As banks remain cautious and keep credit card interest rates elevated, the best thing to do is to start making moves to reduce your debt.

As of April, some 76% of cardholders who asked their issuer to lower their credit card interest rate were successful, LendingTree found. Borrowers who asked got at least 6 percentage points knocked off of their APR.

“You can certainly still call your credit card issuer and ask them to lower the interest rate on your credit card, and you'll still have a pretty good chance of them helping you that way,” Schulz said. “It's certainly worth making the call.”

Read more: How to pay off credit card debt when your budget's tight

Another strategy to reduce the burden on your credit card debt is to switch to a 0% balance transfer card. Those with good credit standing can get introductory periods of up to 21 months with zero interest, which can be a relief for those struggling to pay off debt.

Schulz added: “You definitely still have options. Balanced trade 0% transfer offers are definitely still out there. You'll need to have pretty good credit to be able to get one, but they are definitely still out there.”

Gabriella is a personal finance and housing reporter at Yahoo Finance. Follow her on X @__gabriellacruz.