
AOC and Bernie Sanders proposal would make it harder for poorer Americans to get credit cards

by Philip Klein | May 09, 2019 01:31 PM

Sen. Bernie Sanders, I-Vt., and Rep. Alexandria Ocasio-Cortez, D-N.Y., are [proposing a crackdown on banks issuing credit cards](#), but in reality, their plan would simply make it more difficult for poorer Americans and those with patchy credit histories to obtain cards.

At the center of the new proposal is a provision to cap the interest rates that banks are allowed to charge on credit card interest at 15%.

The credit card industry no doubt engages in practices that can have a destructive effect on personal finances. They can issue cards with low or no interest rates to lure people in, and then jack up rates at the end of that period, raking in tremendous profits. There are plenty of things that can and should be done to better educate Americans about the risks involved in running up large balances. But capping interest is likely to hurt more than it would help.

The ability to set astronomical interest rates is one thing that makes it worthwhile for banks to issue credit cards to people with a relatively higher risk of default. If the interest rate is capped at 15%, wealthier Americans and those with strong credit won't have much problem getting a card. But banks will have to tighten their lending standards on those with lower incomes or more problematic credit histories.

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It's true that banks could take advantage of people in a desperate financial state by offering them cash advances or low teaser rates, only to pummel them with interest payments down the road. At the same time, there are also people who are willing to sign up for cards with high interest rates, with the full expectation that they are going to pay off the full balance each month. In fact, anybody seeking to build credit would be wise to do that — maintain a small credit card balance each month and then pay it off, to establish a long payment history.

Over time, the trend in credit card usage has been toward more people paying off the full balance each month. Back in 1990, 60% of credit card purchases ended up translating into outstanding balances subject to interest, but by 2015, that had fallen to 28%, [according to](#) data from the Nilson Report, which projects that percentage will continue to fall in the coming years. What's happened is that people have been savvier consumers of credit cards — purchasing more to take advantage of rewards programs, and also paying off full balances each month to avoid extraordinary interest.

In the name of consumer protection, what Sanders and Ocasio-Cortez would do would be to deprive many low-income Americans of the option of having a credit card and using it to build or repair their credit.

Another part of their proposal involves using allowing the post offices to engage in banking services for low-income individuals. This is the same postal system that lost [\\$3.9 billion](#) in 2018, with Postmaster General Megan Brennan stating, "Simply put, we cannot generate revenue or cut enough costs to pay our bills." Color me skeptical that the solution is for post offices to become massive subprime lenders who aren't allowed to charge high interest.

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