



Current Policy Perspectives | 26-2 | March 25, 2026

# How Interest Rate Changes Affect Credit Card Spending

Falk Bräuning and Joanna Stavins

When the Federal Reserve raises or lowers interest rates, these changes are transmitted to the financial system through various channels. One important but often overlooked channel is credit card interest rates. Most credit cards have variable rates, which usually rise or fall with the Federal Reserve's interest rate changes. Our analysis finds that when credit card interest rates increase by 1 percentage point, consumers reduce their credit card spending by 8.7 percent in the following month.<sup>1</sup>

This finding has significant implications for how monetary policy affects consumer spending and therefore the broader economy because credit cards have become a dominant payment method in the United States. In 2022, US consumers made \$5.83 trillion worth of purchases using credit cards, accounting for about 20 percent of all consumer spending.<sup>2</sup>

However, this aggregate effect masks important differences across types of cardholders. A large share of credit card spending is by “revolvers,” borrowers who carry balances from month to month and pay interest on those balances (see Figure 1, next page). Indeed, the impact of interest rate changes on individual consumers depends critically on whether they carry a balance and, as we show later, on their credit score, indicating that different segments of the population respond differently to monetary policy.

*The views expressed herein are solely those of the authors and should not be reported as representing the views of the Federal Reserve Bank of Boston, the principals of the Board of Governors, or the Federal Reserve System.*

## Key Takeaways



In response to a 1 percentage point increase in the annual percentage rate (APR) on credit card accounts, credit card spending declines by 8.7 percent in the following month.



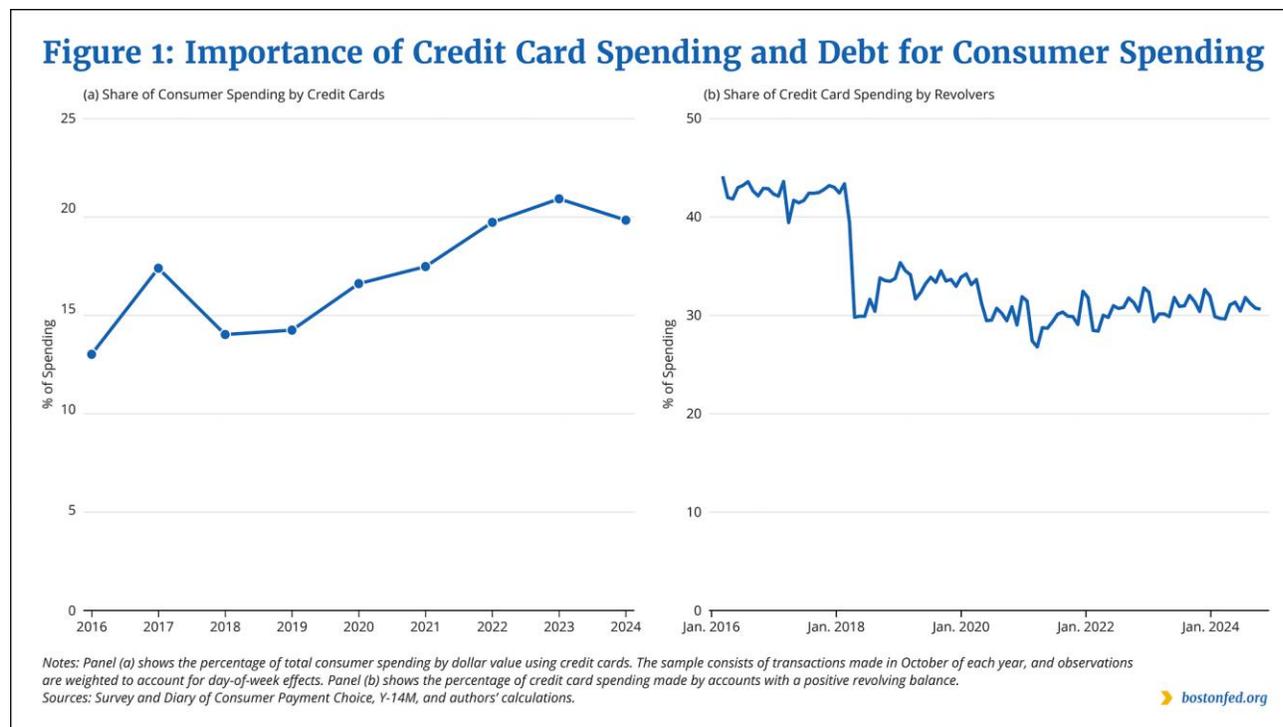
The effect of interest rate changes on outstanding credit card balances is also significant, but it is smaller than the effect on spending.



The aggregate declines in credit card spending are driven by revolver accounts and by low-credit-score accounts. By contrast, spending on transactor and high-credit-score accounts does not decline significantly when interest rates rise.



Outstanding balances on high-credit-score accounts decline 7 percent on average after a 1 percentage point increase in APR, indicating that when interest rates rise, those cardholders continue to spend at the same rate but pay down their balances.



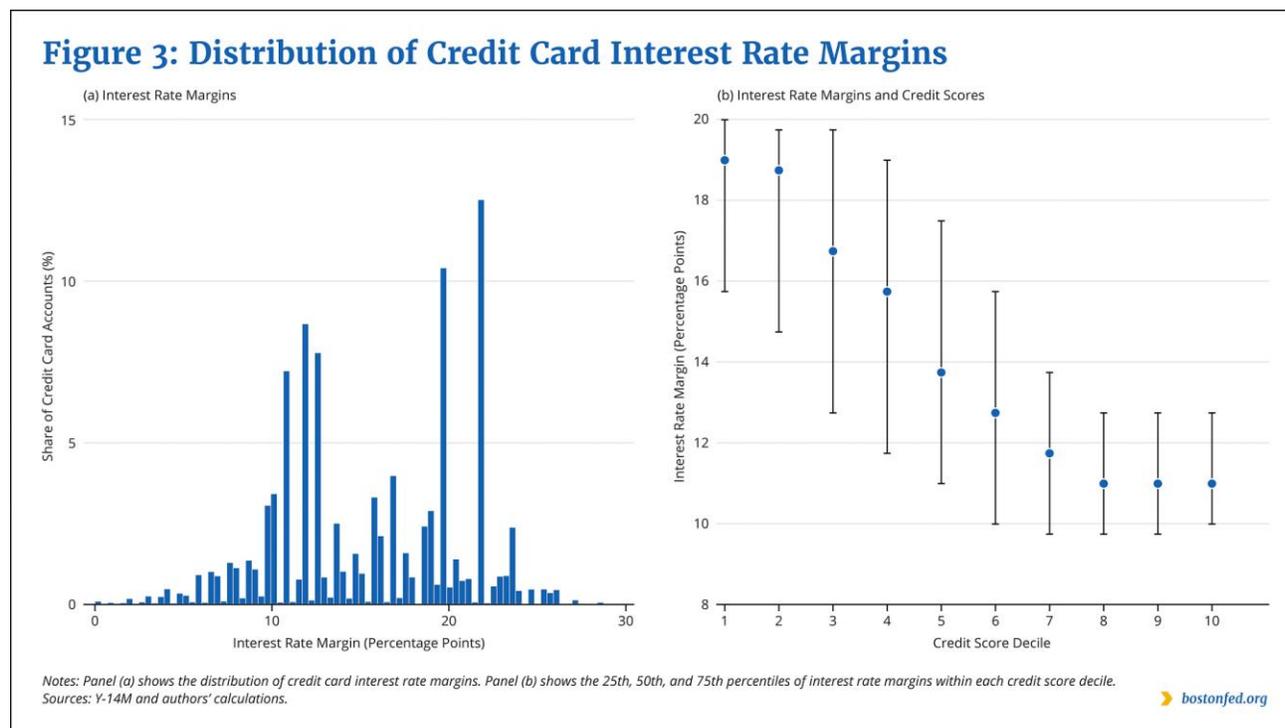
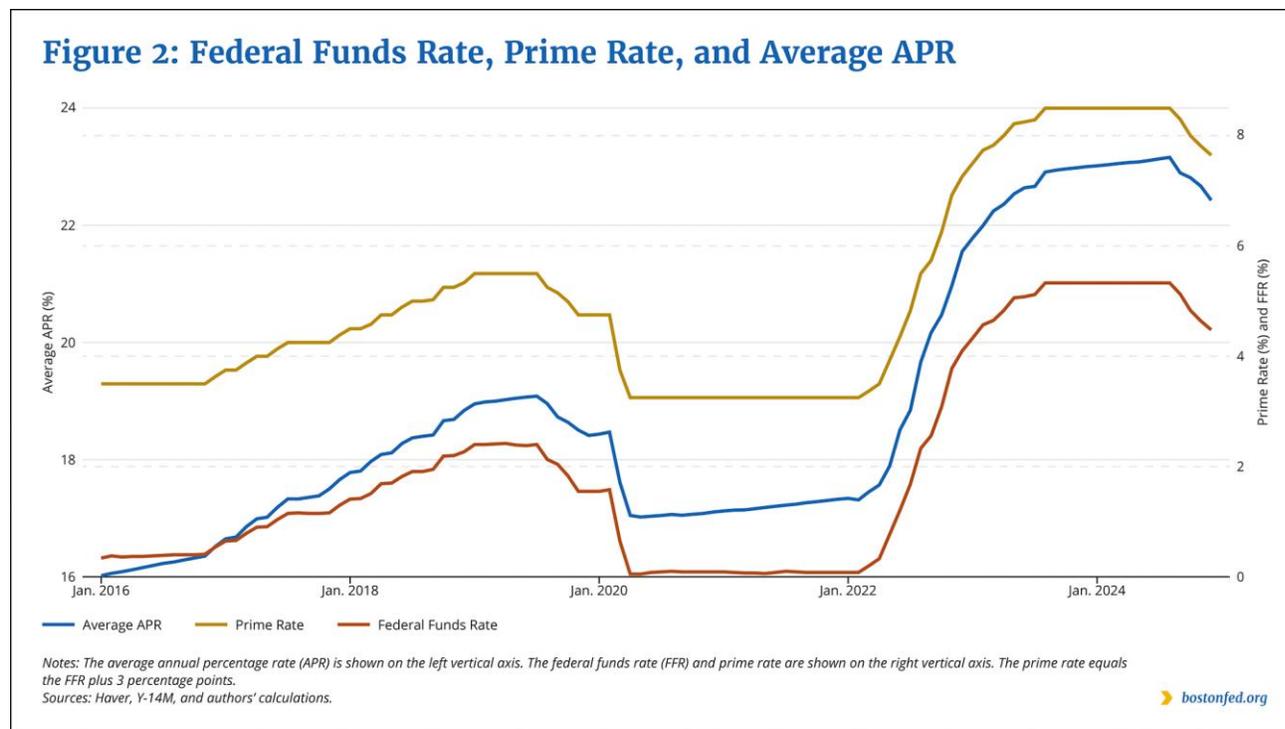
For our analysis, we use a rich data set from supervisory data collected by the Federal Reserve for bank stress-testing. These data cover nearly 80 percent of all US credit card accounts that were active during the 2016–2025 period. Each month, for each account, the data set records how much the cardholder spent, how much debt they carried, their card’s interest rate, and information about their credit score and contract terms. Because the data track the same accounts over time, we can observe how spending changes when an account’s interest rate changes.

## How Credit Card Interest Rates Are Set

As noted earlier, most credit cards have variable interest rates. These rates move with the prime rate, which is the interest rate that banks offer their most creditworthy customers. The prime rate closely follows the federal funds rate (FFR), which is set by the Federal Reserve’s Federal Open Market Committee and is the Fed’s target for the interest rate at which banks lend federal funds (balances held at Federal Reserve Banks) to other banks overnight. The prime rate is the FFR plus 3 percentage points.

When the Federal Reserve raises the FFR, annual percentage rates (APRs) on credit card accounts usually rise as well. The APR typically equals the prime rate plus the individual margin on a given account set by the issuing bank.<sup>3</sup> Figure 2 (next page) shows the relationships among the FFR, the prime rate, and the average APR. When the Federal Reserve raises or lowers the FFR, the prime rate typically adjusts within a month, meaning that the Fed’s policy changes flow through to credit card rates rapidly.

The margin added to the prime rate is determined by the bank when an account is opened and generally remains constant over time. The margin varies significantly across accounts based on borrowers’ creditworthiness. On average, cardholders with lower credit scores face margins of 19 to 20 percentage points (meaning their APRs are 19 to 20 percentage points higher than the prime rate), while those with excellent credit scores face margins of 11 to 12 percentage points (see Figure 3, next page). This difference in margins means that lower-credit-score borrowers tend to pay high interest rates regardless of how low the Federal Reserve sets the FFR.

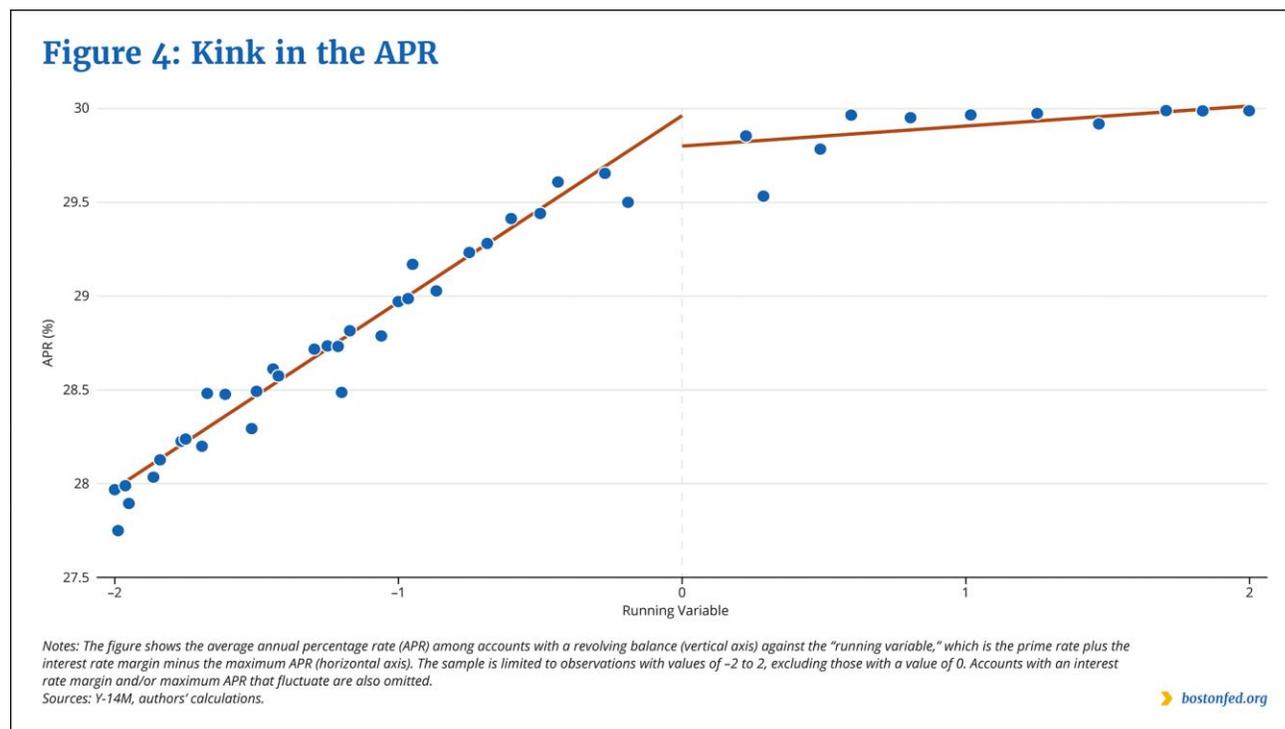


A challenge of studying the effects of changes in interest rates is that such changes are not independent of consumer spending. The Federal Reserve typically raises rates when the economy is strong, which usually coincides with strong consumer spending. If spending and interest rates rise together, it can be difficult to determine causality.

We overcome this problem by taking advantage of the fact that most credit card contracts include a maximum APR, typically 29.99 percent. Once an account's APR reaches that ceiling, it cannot rise higher, even if market rates increase. When an account's APR is below the ceiling, it moves with the prime rate, thereby

changing the cost of credit card borrowing. Once the APR reaches the ceiling, however, there is a kink, and that relationship between the APR and prime rate no longer holds (see Figure 4).

By comparing the relationship between spending and changes in the interest rate for accounts just below the ceiling with the spending–changes relationship for those just above it, we isolate the effect of interest rate changes on credit card spending. (We describe the application of this “regression kink design,” including identification assumptions, in the accompanying working paper, [Bräuning and Stavins 2025](#).)



## Revolvers Respond More Than Transactors to Interest Rate Changes

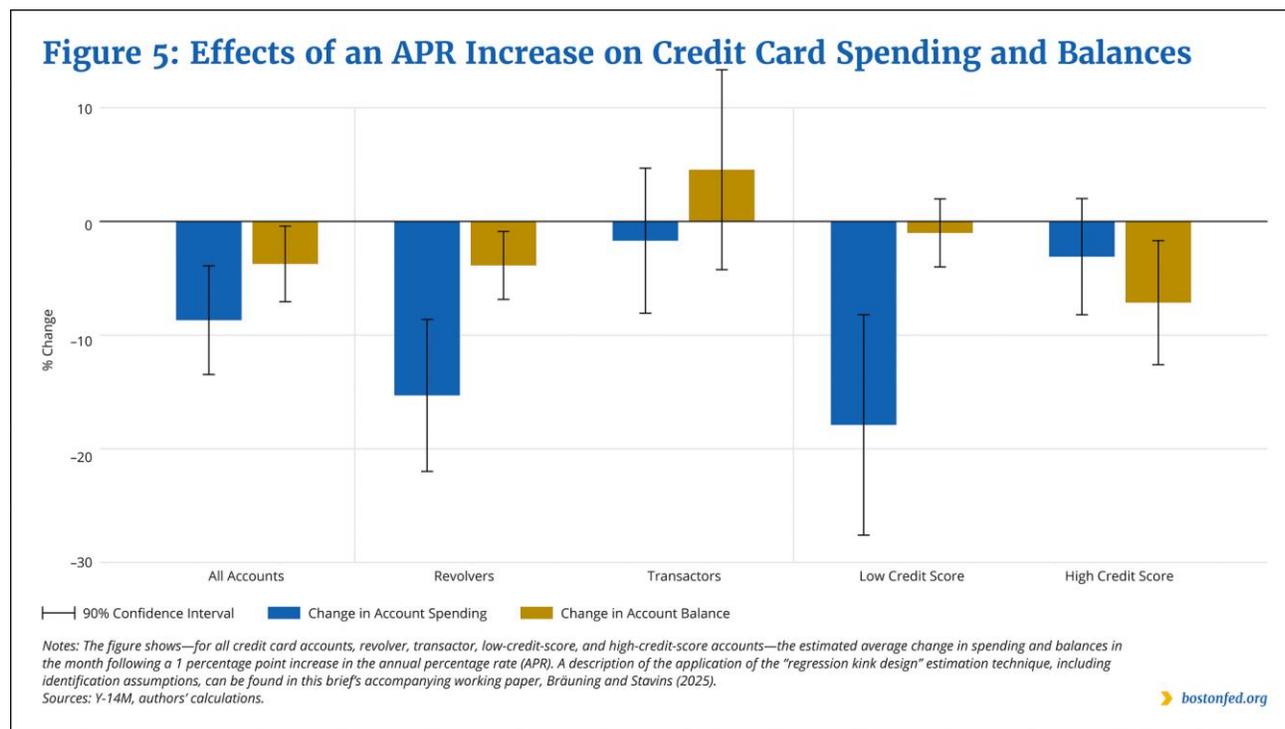
As noted earlier, our results are strong and significant: A 1 percentage point increase in a credit card’s APR reduces spending on the card by nearly 9 percent in the following month, on average (see Figure 5, next page).<sup>4</sup> That is an economically meaningful response. For the average account in our sample, it amounts to a reduction of roughly \$74 in monthly spending (in inflation-adjusted terms).

Interest rate increases also reduce outstanding balances. As Figure 5 shows, on average, a 1 percentage point rise in a credit card’s APR leads to a decline of about 4 percent in the card’s revolving balance—the balance that’s carried from month to month. In other words, consumers not only spend less but also reduce their debt when borrowing becomes more expensive.

The effects of interest rate changes are not uniform across all cardholders but instead vary depending on whether someone carries a balance on their account. Credit card users can be divided into two broad groups. Some, often called “transactors,” pay off their balance in full each month. They use credit cards for convenience, rewards, or record-keeping, but they do not pay interest. Others, the revolvers, carry balances from month to month and pay interest on their debt.

We find that revolvers drive the results from our analysis, as shown in Figure 5. For accounts that carry balances, a 1 percentage point increase in the APR reduces spending by about 15 percent in the following month, or nearly double the overall average effect. By contrast, the credit card spending of transactors does

not respond significantly to interest rate changes. This finding is intuitive: If you are not paying interest, a higher interest rate does not directly increase the cost of your purchases.



## Response to Interest Rate Changes Also Varies by Credit Score

We also examine the effects of credit card interest rate changes by credit score. We divide accounts into those with relatively low credit scores (below the median) and those with higher credit scores (above the median). As with revolvers and transactors, we find a significant difference between the two groups’ responses to APR changes.

As Figure 5 shows, for lower-credit-score accounts, spending falls by about 18 percent on average when the APR rises by 1 percentage point. For higher-credit-score accounts, spending barely changes, but outstanding balances decline significantly, by about 7 percent. In other words, lower-credit-score consumers adjust to an interest rate increase by cutting their spending, whereas higher-credit-score consumers adjust by paying down debt.

The contrast in responses likely reflects a difference in financial constraints. Lower-credit-score consumers often have fewer financial resources, less savings, and limited access to alternative forms of credit. When interest rates rise and borrowing becomes more expensive, they may not have the flexibility to shift funds around or refinance, so instead, they reduce spending. Higher-credit-score consumers tend to have more savings and better access to credit, so when interest rates increase, they can pay down expensive credit card debt while maintaining their level of consumption. They are better positioned to smooth their spending despite higher borrowing costs.

These findings concerning how the impact of changes in credit card interest rates varies across cardholder types have important implications for understanding how monetary policy affects different households. Because the strongest responses to interest rate increases come from revolvers and lower-credit-score accounts, monetary policy tightening may disproportionately affect households that are already financially constrained.

We should note that our analysis focuses on accounts near their contractual maximum interest rate. These accounts tend to have higher interest rates and lower credit scores, so the estimates reflect what economists call a “local” effect. However, the consistency between the account-level results and the aggregate evidence (see endnote 4) suggests that the broader conclusions are robust.

One caveat to our analysis is that we do not capture the substitution of other forms of payments or credit for credit cards. As a result, the effects of interest rate changes on consumer spending more broadly—that is, not just credit card spending—may be smaller than our estimates.

## Endnotes

1. See [Bräuning and Stavins \(2025\)](#) for details on the model and estimation techniques that were used in this analysis.
2. See the [Federal Reserve Payments Study](#) and the [Survey and Diary of Consumer Payment Choice](#).
3. Recently, there has been some mention of a potential 10 percent cap on credit card interest rates (see Imani Moise, “[The Credit-Card Rate Cap Has Stalled, and Issuers Are Doing Just Fine.](#)” *Wall Street Journal*, Feb. 5, 2026). Although that discussion brings credit card interest rates into the spotlight, our analysis does not allow us to extrapolate the results to such a large drop in interest rates.
4. We complement our account-level analysis with an aggregate analysis and examine how changes in the FFR affect total credit card spending. We find that the largest effect occurs about two months after the rate change, which is consistent with the time it takes for credit card rates to adjust and for consumers to respond. This aggregate evidence supports our account-level findings.

## About the Authors

[Falk Bräuning](#) is a vice president and economist in the Federal Reserve Bank of Boston Research Department. [Joanna Stavins](#) is a former principal economist and policy advisor in the Federal Reserve Bank of Boston Research Department.

## Acknowledgments

The authors thank Liam Chentoufi for outstanding research assistance.

## References

Bräuning, Falk, and Joanna Stavins. 2025. “[The Credit Card Spending Channel of Monetary Policy: Micro Evidence from Account-level Data.](#)” Federal Reserve Bank of Boston Research Department Working Papers No. 25-10.