3 Reasons Your Credit Card Interest Rate Can Increase

National nonprofit credit counseling agency Take Charge America explains how credit card interest rates are determined and what consumers can do to control them

PHOENIX – (July 13, 2023) – Despite Americans' widespread reliance on credit cards, many consumers don't understand how their interest rates work and how their own actions can drive them up. This knowledge gap causes many to spiral into debt.

Interest rates are initially based on numerous factors, including credit scores, credit history, debts and financial stability. Higher credit scores mean lower default risk and better interest rates, while lower credit scores can result in higher rates due to perceived risk. However, this is only part of the picture.

"With so many credit cards readily available with varying types of interest rates and upfront deals, it can be confusing to assess the short- and long-term repercussions to your financial life," said Amy Maliga, financial educator with Take Charge America, a nonprofit credit counseling and debt management agency. "Some interest rate factors are within your control, and some aren't. If you don't understand why or the difference, you could end up paying hundreds or thousands of dollars in avoidable interest charges."

Maliga shares three reasons why credit card rates increase:

- **Federal rate increases:** If the Federal Reserve increases the federal funds rate, your credit card issuer's prime rate will increase, too. Prime rates are used to set interest rates, and if that increases, your card's Annual Percentage Rate (APR) will increase accordingly. If this occurs, your credit card issuer must notify you in advance.
- **Promotional interest periods:** Be cautious of signing up for credit cards with enticing low interest rates for a limited time. Do not be lured by this promotional rate alone. It's important to investigate what the interest rate will be after the promotional term ends. If it's much higher than you anticipated, you should consider a different card.
- **Late payments:** If you're struggling to make payments, it's not just late fees you're subject to, but additional impacts on your interest rate. If your payment is more than 30 or 60 days late, creditors will usually begin to impose penalties. Your interest rate can be increased to around 30% or more, causing more financial strain down the line. When making a purchase, carefully evaluate wants vs. needs — and consider an item's true cost if you continue to rack up debt you are unable to pay off on time.

For additional resources on credit, visit Take Charge America's Credit 101 page.

About Take Charge America, Inc.

Founded in 1987, Take Charge America, Inc. is a nonprofit agency offering financial education and counseling services including credit counseling, debt management, housing counseling and bankruptcy counseling. It has helped more than 2 million consumers nationwide manage their personal finances and debts. To learn more, visit takechargeamerica.org or call (888) 822-9193.

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