

Credit Card Interest Rates: What's Going On? - Transcript

Tom: 162 may be the last game of the season, but it's certainly not the last video we're going to run. Stick around. We have some important news about your credit card.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 162. Thanks for tuning in.

It's no surprise, interest rates have been falling everywhere, everywhere except where we need them. The fed lowered interest rates recently, and that meant lower rates on things like mortgages, business loans, home equity loans, things like that, and it also lowers the rates that we see at the banks, so our savings rates and CDs tend to fall as well, but another place where rates aren't falling and in some cases are rising are credit cards.

Two years ago, the average margin on a credit card was 10.6%. So understand that banks have a cost to lend, and then they add another 10.6 on top of that. That margin is now 11.7%. It's the highest margin on record.

There's an article in the Wall Street Journal, which we'll link to in the show notes. It points to ... The banks, they're very clever. They explain this away by saying, "Well, we have rewards programs and we offer free travel and other perks eating into the profits from the banks that issue these cards."

Don't believe this for a minute. Frequent flyer programs are actually raising the hurdle you need to earn points and travel. I just got an email in the last day or two from United Airlines. Basically, they're moving the goalposts way further out to get to the next level. No, no, no. Credit cards are actually raising rates. They're doing this so that you will change your behavior.

Basically, what the banks are saying is, "If you're going to borrow, you're going to pay." The banks that are offering these cards are getting ready really for the next downturn in the economy, so they're raising rates now, and that's only one step in the process of how they're trying to basically build a moat around their own earnings and profits.

The economy is pretty good right now. It's not great, but it's pretty good, so it's just another reminder to get your house in order. Credit card debt, when we see people come in here with credit card debt, it's the first thing we want to tackle. So as a reminder, I just want to tell folks ... I use this line all the time ... it wasn't raining when Noah built the arc.

Think about what you can do right now to get your financial house in order. And if you need help with that, reach out to us. We'll talk to you soon.