

Analyzing the affordability trade

From Global Fixed Income

With the midterms approaching, the administration has launched a renewed affordability push, including a proposed credit card rate cap and expanded GSE MBS purchases. We expect additional affordability initiatives in the weeks ahead.

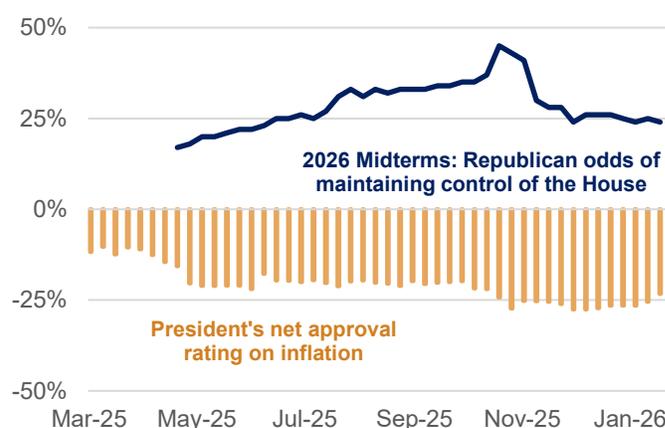
Markets have responded most clearly in the MBS market, where the GSE announcement drove a tightening in spreads.

The effectiveness of these initiatives is uncertain: MBS purchases are limited in scale, while the credit card proposal is non-binding and any lower-rate offerings would likely be confined to higher-quality cardholders.

We believe agency MBS may benefit from explicit policy support and a clear affordability transmission channel. In evaluating new opportunities among financials, it is our view to modestly favor those issuers with lower exposure to affordability-related headline risk.

Affordability has moved to the forefront of the administration's domestic policy agenda, shaping a broad range of actions spanning trade, monetary policy, and debt management. Recent initiatives have included targeted tariff exemptions, sustained public pressure on the Federal Reserve to lower interest rates, and adjustments to Treasury debt management practices aimed at limiting increases in long-term yields that could feed through to

Figure 1: The approaching midterms shine a spotlight on affordability concerns



Source: RealClear Politics, Kalshi. Through January 19, 2026.

higher borrowing costs for households. The political backdrop to this renewed focus is the approaching November midterm elections, with the administration facing weak approval ratings on the economy and inflation and the risk that Republicans could lose control of the House of Representatives—an outcome that would significantly constrain the President's legislative agenda in the final two years of his term.

In this note, we focus on two prominent elements of the administration's affordability push: mortgage-backed securities purchases by the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, intended to place downward pressure on mortgage rates, and the proposal to cap credit card interest rates at 10 percent. In addition to outlining these initiatives, we assess their potential market impact and discuss the implications.

GSE MBS purchases



INVESTMENTS



The administration has directed Fannie Mae and Freddie Mac to expand agency MBS purchases by up to \$200 billion, framing the effort as a means to lower mortgage rates, reduce monthly payments, and improve home affordability. This builds on GSE buying already underway in the second half of 2025 and remains within existing portfolio caps, though key details around pace, product mix, and execution are still unresolved. The intent is clear: increased GSE demand is designed to compress agency MBS spreads and translate directly into lower primary mortgage rates, independent of Treasury yield moves.

Markets reacted quickly to the GSE announcement on January 8. In the 24 hours following the headline, current coupon agency MBS spreads tightened sharply—from roughly 110 basis points over Treasuries to approximately 95 basis points—despite modest increases in volatility and ongoing supply. This tightening has already flowed through to lower primary mortgage rates, underscoring the effectiveness of spread compression as an affordability channel. Market estimates suggest that, absent offsetting rate moves, this magnitude of tightening is consistent with mortgage rates moving back below 6%.

From an affordability standpoint, the impact is tangible in the near term. A decline from roughly 6.5% to just under 6% on a \$400,000 30-year mortgage lowers monthly payments by approximately \$130–\$160, depending on assumptions—meaningful relief for rate-sensitive borrowers at the margin. We remain attuned to any signals that the administration looks to raise the GSEs’ securities portfolio cap, which would open the door to additional MBS purchases and spread narrowing. While this could lower mortgage rates further, it is worth noting that this initiative

Figure 2: Current coupon MBS spread around the announcement of GSE purchases



Data through January 16, 2026.
Source: Bloomberg

works only on the demand side of the housing market. Absent a housing supply response, an increase in housing demand resulting from lower mortgage rates may add to home price appreciation, pushing against overall affordability.

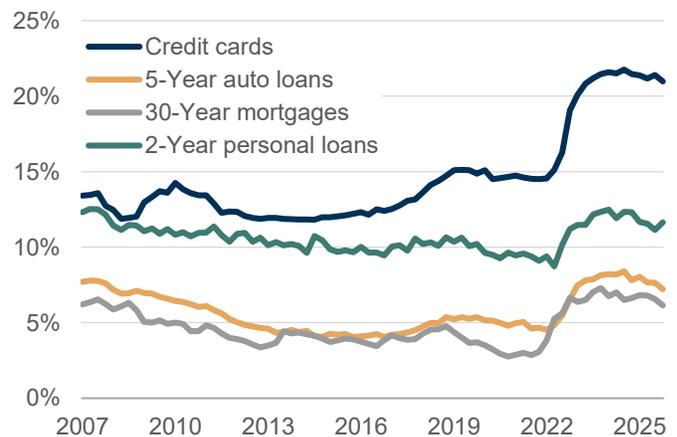
We believe the GSE announcement reinforces agency MBS as a sector with explicit policy support and a clear affordability transmission mechanism. Agencies benefited from the rapid post-announcement tightening, and at current spread levels we are closely monitoring valuations and policy follow-through, recognizing that additional upside will depend on execution details and the durability of GSE demand.

Credit card interest rate cap proposal

President Trump has recently floated the idea of imposing a 10 percent cap on credit card interest rates, though no formal policy proposal or implementation framework has been provided. At this stage, the concept remains preliminary and politically uncertain, but it has nevertheless attracted market attention given its potential implications for bank earnings, credit availability, and consumer borrowing costs. By way of context, average credit card interest rates are currently well above the proposed cap, running in the low-20 percent range.

Considerable uncertainty surrounds how such a cap would be implemented, if at all. There has been no guidance on whether compliance would be mandatory, whether the cap would apply to existing balances or only to new credit, or whether it would be enforced through regulation, legislation, or voluntary issuer participation. Market participants broadly expect that binding implementation would require Congressional action, particularly given that

Figure 3: Interest rates on credit card balances near record highs



Quarterly data through end-2025.
Source: Board of Governors of the Federal Reserve System, Freddie Mac

similar bipartisan proposals introduced last year failed to gain traction. In the absence of legislation, the proposal appears more likely to function as a political signal than as an imminent regulatory change.

From an economic perspective, a strict and binding 10 percent cap would entail meaningful tradeoffs. According to the Federal Reserve Bank of New York, elevated credit card rates reflect three main factors.¹ First, default risk varies sharply by borrower quality, with annual charge-off rates ranging from roughly 9.3 percent for borrowers with FICO scores near 600 at origination to about 1.3 percent for those with scores around 850. Second, this default risk is largely non-diversifiable: charge-offs across FICO segments move together and rise in downturns, and credit card losses are highly correlated with other bank loan and corporate bond defaults. Third, operating expenses are exceptionally high—around 4–5 percent of balances annually—accounting for roughly half of default-adjusted annual percentage rates. Marketing costs are a key driver, with credit card banks spending roughly 1–2 percent of assets annually on marketing, about ten times the share spent by other banks. Institutions with higher operating costs charge materially higher spreads for a given FICO score and earn higher gross margins, pointing to meaningful pricing power supported by elevated operating expenses. Taken together, these dynamics imply that a uniform 10 percent interest rate cap is not economically viable for issuers serving borrowers across a wide range of credit profiles, and would likely result in tighter credit availability or a reallocation toward higher-quality cardholders rather than broad-based affordability gains. Reduced credit availability, particularly for non-prime borrowers, could push some consumers toward higher-cost or less-regulated forms of credit.

One possible pathway that has been discussed would involve voluntary issuer participation rather than a blanket cap. National Economic Council Director Kevin Hassett has suggested that large banks could offer new capped-rate products—so-called “Trump cards”—with interest rates limited to 10 percent. Such an approach would allow issuers to target these products to higher-quality borrowers while maintaining existing pricing on outstanding balances, materially limiting the financial impact relative to a

universal cap. While details remain sparse, this framework would likely be far less disruptive to issuer economics than a mandatory across-the-board ceiling. It would also have less of an impact on credit card affordability, as the lower rate would only be available to borrowers who are less likely to maintain balances.

Market reaction to the proposal has been measured. Credit card issuer bond spreads initially widened, with the largest moves concentrated among issuers with greater exposure to non-prime borrowers. As investors reassessed the likelihood of enactment and the scope for issuer workarounds, spreads have since stabilized and now remain modestly wider—by roughly 5 to 8 basis points—than prior to the announcement, recouping about half of the initial move. The credit card ABS market has also seen minimal immediate reaction, with limited trading activity and benchmark spreads largely unchanged. While headline risk has increased, most large bank card trusts operate with charge-off rates well below the proposed cap, limiting near-term structural stress.

We expect credit card issuers to push back and adapt in ways that limit the longer-term spread impact. The more salient risk at this stage is continued political and media focus on credit card affordability rather than near-term regulatory change. Going forward, it is our view to modestly favor financial issuers with lower exposure to affordability-related headline risk, including select regional banks, when evaluating new opportunities.

In unsecured consumer ABS, our response has also been muted. While the policy discussion introduces longer-term uncertainty around yields and excess spread—particularly for retail-focused platforms—we see limited near-term incentive to reposition our view given structural protections, issuer support tools, and the lack of material market repricing to date.

Overall, the proposed 10 percent credit card interest rate cap appears unlikely to be implemented quickly or unilaterally. Even if the idea continues to gain political visibility, potential issuer adaptations and legislative hurdles should constrain its ultimate impact on markets. We will continue to monitor developments closely.

¹ Itamar Drechsler, Hyeyoon Jung, Weiyu Peng, Dominik Supera, and Guanyu Zhou, “Why Are Credit Card Rates So High?,” Federal Reserve Bank of New York Liberty Street Economics, March 31, 2025, <https://liberystreeteconomics.newyorkfed.org/2025/03/why-are-credit-card-rates-so-high/>

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