



Addressing top-of mind issues for credit card issuers

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Strategy

Credit card issuers and cardholders continue to follow the proposed Capital One-Discover transaction with Capital One announcing a five-year, \$265 billion community benefits plan as part of its acquisition, while simultaneously addressing proposed class action lawsuit from customers who believe that the deal violates US antitrust law. Industry professionals generally expect that this transaction and related matters will continue well into 2025.

As it relates to consumer credit, there continues to be concern regarding US credit card debt, which rose to \$1.14 trillion¹ according to the most recent Federal Reserve Bank of New York report. Further, J.D. Power's recent release of its US Credit Card Satisfaction Study highlights that more than half (54 percent) of US credit card customers are financially "unhealthy."² The study also highlights the subtle shift from "points" and "miles" cards to "cashback" cards as consumers continue to experience economic pressure. As issuers look to address delinquencies and shifting consumer needs, they are taking a more holistic approach to customer relationships, as opposed to taking a product-specific approach, and creating an ecosystem of partnerships. An example of this is the new partnership between Bilt and Walgreens that was announced in August 2024.³

Related to business cards, it appears that more fintechs and payment platforms are becoming interested in embedding business credit cards into their platforms after seeing the successes of Ramp and Brex. An example of this is Bluevine and Mastercard partnering to introduce a small business card.⁴ Similar to the increase in consumer card balances, the balances associated with small business credit cards are on the rise. Coupled with the failure of Synapse and the regulatory focus on BaaS, card issuers are focused on not only teaming with fintechs and payment platforms but also building or embedding similar capabilities themselves. A recent example of this is how Galileo integrated Mastercard Smart Data into its business-to-business expense management offering.⁵

- Review your current rewards program and related customer segmentation to determine if your current program is competitive and meets customer needs
- Review and assess your current partnerships strategy.



For more information around strategy issues for credit card issuers, contact [Michelle Swiec](#), Banking & Fintech Strategy leader.



Potential actions to include:

- Determine if your virtual card program is competitive and complementary to your existing business-to-business payment offerings
- Conduct scenario planning related to the various headwinds facing the industry and evaluate your current and future business strategy

¹ Federal Reserve of New York, "Household debt and Credit Report" (August 2024)

² JD Power, "Show Me the Money! Cashback and Value Credit Cards Grow in Popularity as Financial Health of Cardholders Declines, J.D. Power Finds" (August 15, 2024)

³ BILT, "Bilt Expands Neighborhood Rewards into Healthcare: Collaborates with Walgreens to Launch Automatic FSA/HSA Program" (August 26, 2024)

⁴ PYMTS, "Bluevine and Mastercard Partner on Small Business Credit Card" (June 25, 2024)

⁵ PYMTS, "Galileo Adds Mastercard Smart Data to Expense Reporting Solutions" (August 27, 2024)



Risk and regulatory

The financial industry faces dramatic shifts in risk and regulatory measures. **Late fees** cost American cardholders around \$12 billion each year, according to the CFPB. The agency **issued a final rule**⁶ on March 5, 2024 that would amend Regulation Z to “better ensure” credit card late fees are “reasonable and proportional” to late payments. The final rule adopts a late fee safe harbor threshold of \$8 for card issuers that have one million or more open credit card accounts (Larger Card Issuers). However, a Texas federal district court entered a preliminary injunction, which has stayed the final rule from going into effect. The timing of the resolution of the litigation, and therefore the implementation of the rule, is uncertain.

The CFPB recently analyzed lending patterns which showed a tenfold increase in Buy Now, Pay Later lending, with loans across merchant categories and ranging in purchase amounts. This analysis prompted them to propose an **interpretive rule**⁷ affirming that BNPL lenders are subject to some of the same consumer protection requirements as traditional credit card companies. Under the proposed rule, BNPL lenders would be required to investigate disputes, provide refunds for voided services and returned products, and issue billing statements that disclose any applicable fees and pricing structures.

In line with global privacy regulations such as the EU’s General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA), the CFPB has **proposed a rule**⁸ to implement “open banking” that would require depository and nondepository entities to share **consumer financial data** with both consumers and authorized third parties, establishing privacy protections and access standards. The comment period on the proposed rule closed in 2023, and the timing of a final rule is uncertain.



Potential actions to include:

- Monitor the developments in the late-fee rule, including possible litigation, and **assess the operational and information technology (IT) system impacts** of the late-fee cap, including any updates to customer disclosures.
- **Assess the current operation of BNPL products** for alignment with credit card regulations
- **Develop interfaces for consumers** and data providers for safe and secure data sharing.



Thought leadership:

- [Ten Key Regulatory Challenges of 2024: Mid-year Look Forward](#)
- [Regulatory Shift 2025](#)



For more information around risk and regulatory issues, contact **Damian Plioplys**, Financial Services Risk, Regulatory, and Compliance.



Credit

In August 2024, the Federal Reserve Bank of New York published its quarterly report on Household Debt and Credit, noting that household debt balances increased by \$109 billion to reach \$17.80 trillion outstanding⁹. Credit card balances increased by \$27 billion between Q1'24 and Q2'24 and are approximately \$1.14 trillion in outstanding balance.⁹ The change represents a 5.8 percent increase from the previous year. The Federal Reserve Bank of New York noted that aggregate delinquency rates remained stable between quarters but that the delinquency transition rates for credit cards increased slightly. Between Q2'23 and Q2'24, approximately 9.1 percent of credit card balances transitioned into delinquency.⁹

Consumers who have been coping with the impact of higher interest rates and persistent inflationary pressures may finally find some relief after the interest rate cut of 50 basis points announced by the Federal Reserve in September 2024.

Credit performance continues to be challenging in the current environment. Further, predicting credit loss may become even more difficult as the economy potentially approaches an inflection point for interest rates and inflation. There will likely be a lag before slowly decreasing interest rates and lower inflation begin to have a positive effect on credit. Further, at the AICPA Banking Conference in September 2024, federal banking regulators highlighted a focus on the Allowance for Credit Losses as an essential risk management function. As a result, when estimating loss and managing credit, banks should continue to monitor model performance and recent trends, and analyze historical data reflective of a similar economic scenario. Banks should also continue to coordinate among the various functions, including credit and accounting, to make sure that effective management review and challenge is being performed and is documented.



Potential actions to include:

- Assess **current reserving methodologies** to ensure they accurately incorporate relevant macroeconomic factors and industry trends.
- If defaults and losses have not yet been reflected by current models, then evaluate **whether model adjustments or overlays are required** to accurately predict the expected future losses in the portfolio.
- **Assess the level of consumer credit risk**, with a particular focus on nonprime borrowers who are more susceptible to higher rates of delinquencies and defaults.
- **Assess loan portfolios and implement early warning indicators** to identify high-risk customers and segments.



Thought leadership:

- [CECL Pulse Check Q3 2024](#)
- [2024 AICPA Conference on Banks & Savings Institutions](#)
- [Bank lending is improving for consumers](#)



For more information around credit issues for credit card issuers, contact [Karen Silverman](#), Financial Services partner.

⁹Federal Reserve Bank of New York, "Quarterly Report on Household Debt and Credit" (August 2024)



Capital

The capital rules for banking institutions continue to evolve. In a speech before the Brookings Institution in September 2024, Federal Reserve Board Vice Chair of Supervision Michael Barr discussed potential changes to the Basel III Endgame and G-SIB Surcharge proposals originally proposed in July 2023¹⁰.

One proposed change would change the tiering of institutions that are impacted, exempting Category III firms (with assets between \$250 billion and \$700 billion) from the frameworks for market risk and CVA capital change unless they engage in significant trading activity. In addition to the impacts above, Category IV firms (with assets between \$100 billion and \$250 billion) would be exempt from the credit risk and operation risk frameworks of the expanded risk-based approach. Many card issuer institutions fall within these categories and could be directly impacted by the revised rules.

Additional changes in the reproposal could impact all major areas of the rule—credit risk, operational risk, and market risk. The direct impact to certain rules that could impact credit card issuers is not yet clear, but the re-proposal should provide further clarity.

While an issuance date was not provided for the reproposal, it is expected to be considered in an open board meeting and subject to a 60-day comment period. Implementation would be expected one year after the final rule is released.



Potential actions to include:

- Monitor developments in the **rulemaking process** for proposed “Basel III Endgame” rules.
- Assess the **potential impact of the proposed rulemaking** on capital for unused lines of credit, including an understanding of the impact of capital impact on credit limits not utilized.
- **Assess the operational and IT system impacts** of obtaining and maintaining the data required to demonstrate the “transactor” status of customers.



Thought leadership:

- [Capital: FRB Remarks Outlining Basel III Endgame Reproposal](#)



For more information around capital issues, contact [Mark Nowakowski](#), Financial Services Risk, Regulatory, & Compliance.

¹⁰ Federal Register, “The Next Steps on Capital,” September 10, 2024.



Legislative landscape

The Credit Card Competition Act (the Act) was first introduced in 2022 and was introduced again in 2023. The legislation is bipartisan and has the stated purpose of enhancing competition and choice as it relates to credit card networks. The Act is currently stalled in Congress, and the likelihood and timing of passage are both uncertain.

The Act proposes to inject more and fair competition in the credit card industry by requiring credit card issuers that have assets over \$100 billion to have a minimum of two payment networks, with one being outside the two largest networks. By requiring a network outside of the two largest, the Act intends to create more competition among networks, ultimately resulting in lower processing fees.

The legislation, as currently drafted, may impact the products and services offered as certain revenue streams would be impacted by the legislation if passed. Further, some have raised questions about the impact to credit card reward programs as a result of lower processing fees.



Potential actions to include:

- Monitor developments in the legislative process as they relate to the proposed Act.
- Assess the potential impact of the proposed Act on revenue streams and rewards programs.



For more information around the legislative landscape, contact **Damian Plioplys**, Financial Services Risk, Regulatory, & Compliance.



Accounting

The Financial Accounting Standards Board (FASB) has proposed an Accounting Standards Update (ASU) related to purchased financial assets with credit deterioration. The proposed update would expand the scope of financial assets accounted for using the gross-up approach at acquisition. The proposed update would apply to “seasoned” financial assets and would eliminate the concept of purchased financial assets that have experienced a “more than insignificant” credit deterioration. Therefore, it would eliminate the need for an acquirer to make the judgmental assessment of whether a purchased asset has experienced such credit deterioration.

Companies that purchase credit card portfolios may face operational challenges due to the proposed standard, if finalized as proposed, including the distinction between acquired and originated loans for revolving credit arrangements. Moreover, the retrospective application would require restating prior purchase arrangements due to the unavailability of relevant data and limitations of current IT systems for analysis.

Investors, accounting firms, and other stakeholders have submitted comment letters to the FASB regarding these concerns along with suggestions to ease the operational burden for credit cards, including practical expedients. While some comment letters were in favor of the project, others, along with the Joint Banking Regulators, were opposed.

After considering the comment letters received and deliberating, FASB is currently performing outreach to obtain additional feedback on the proposed ASU, which could result in changes to accounting for credit cards under this standard. At the 2024 AICPA Conference on Banks & Savings Institutions, the FASB noted that preparers of financial statements are focused on possible scope exceptions or practical expedients to address the operational complexities associated with credit cards. The timing of a future ASU is currently uncertain.



Potential actions to include:

- **Review the current IT and data infrastructure**, assessing whether changes are required to capture incremental information for the new accounting model for purchased loans.
- Establish **a dialogue with investors and analysts** to help them understand the impact of the proposed changes on yield due to portfolio acquisitions. This communication can help stakeholders to better understand the changes so they can make informed decisions.



Thought leadership:

- [ASU Topic page](#)
- [2024 AICPA Conference on Banks & Savings Institutions](#)



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