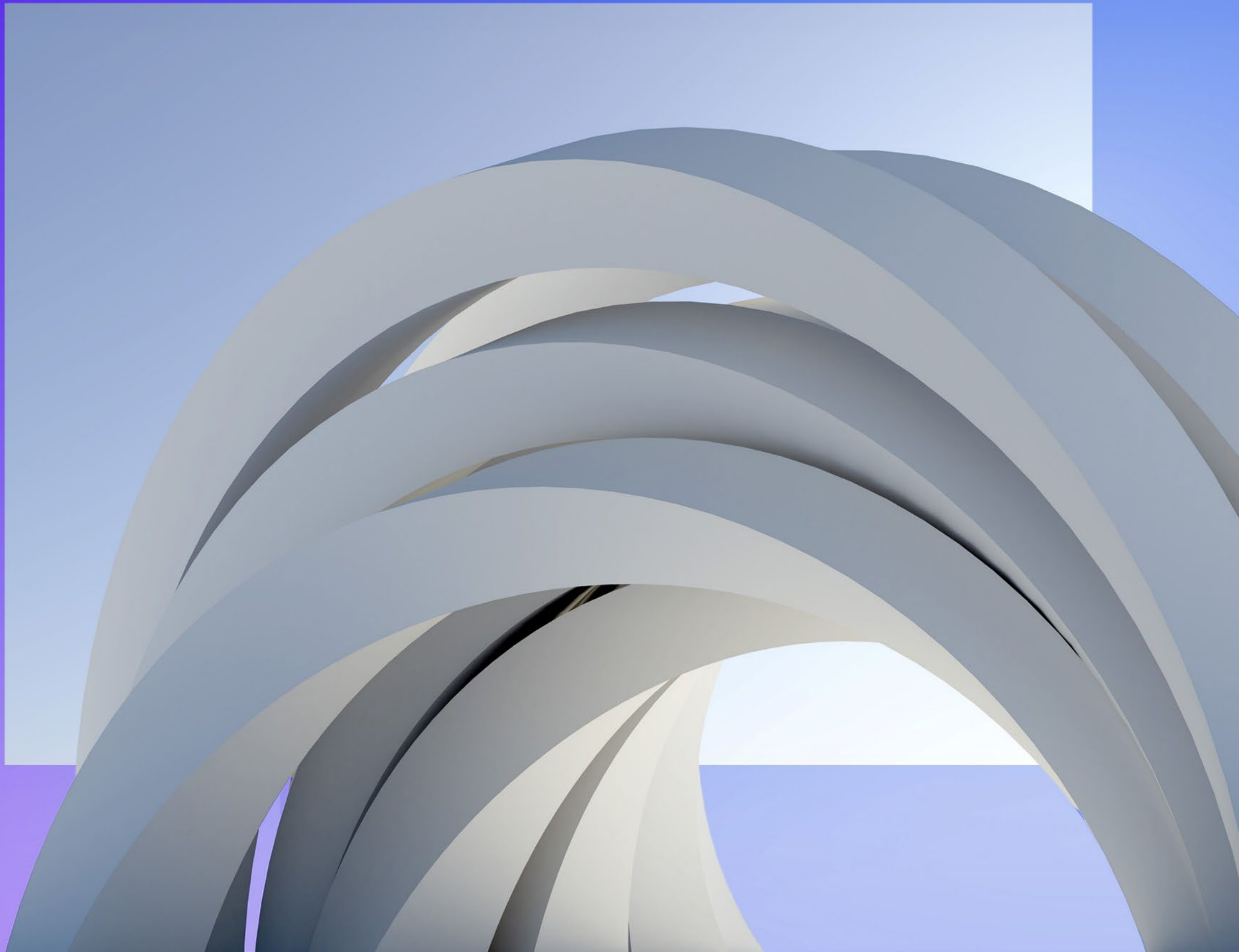
Addressing top of mind issues for credit card issuers

July 2025



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Strategy

Economic uncertainly continued to dominate news cycle throughout the second quarter of 2025 (Q2'25). The enactment of a series of steep trade tariffs by the Trump administration and the subsequent retraction and/or reduction of those tariffs left consumers and businesses generally confused. As a result, the May 2025 University of Michigan's Consumer Sentiment Index indicated that consumer sentiment hit its second-lowest reading on record. Further, several public businesses retracted their 2025 future forecasts and forward outlook.

Time will tell how the trade tariffs may impact consumer and business spending as the first quarter of 2025 (Q1'25) highlighted stronger-than-expected consumer and business spending. For example, some credit card issuers have reported better-than-expected first-quarter results on solid consumer spending[1] and a different credit card issuer reported that purchase volume on the bank's credit cards rose 5 percent.[2]

In Q2'25, many credit card companies started making changes to their credit card programs, which continues to underscore the importance of customized rewards programs. For example, some credit card issuers recently started providing virtual cards[3] to its small business customers in May. Additionally, a different credit card issuer started a platform to manage spending on business cards in April.[4]

The first half of 2025 continues to be an exciting time for the credit card industry and is setting the tone for expectations in the second half of the year.

Potential actions:

- **Conduct scenario planning** related to various headwinds and uncertainties facing the industry and evaluate your current and future business strategies, especially considering recent card issuer M&A activities and potential retraction of consumer spend.
- **Assess if inorganic activity might be in scope** for this year.
- **Review current rewards programs and related customer segmentation** to determine if your current program is competitive and meets customer needs.
- **Determine if commercial credit card plays could come from verticalization**.

Thought leadership

- KPMG Economics - Household debt is reverting to pre-pandemic levels

Contacts

Jonathan Langlois
Financial Services Risk, Regulatory, and Compliance
KPMG LLP
T 704 497 3937
E jlanglois@kpmg.com

Michelle Swiec
Financial Services Risk, Regulatory, and Compliance
KPMG LLP
T 404 222 3000
E mswiec@kpmg.com

[1] Source: Zacks Equity Research, "American Express Q1 Earnings Beat Estimates on Premium Customers" (April 17, 2025)
[2] Source: Capital One, "Capital One Reports First Quarter 2025 Net Income of $1.4 Billion, or $3.45 Per Share" (April 22, 2025) [Press Release]
[3] Source: Payments Dive, "Amex offers virtual card to small businesses" (May 19, 2025)
[4] Source: U.S. Bank, "U.S. Bank introduces Spend Management for business owners" (April 14, 2025) [Press Release]

Risk and regulatory

From the actions of the Trump administration in its first 100 days, it is readily apparent that:

- Historic regulatory process “norms” are being challenged
- Abrupt changes in regulatory focus are adding to uncertainty for government agencies and industry participants
- Regulatory policies are increasingly divergent.

Collectively, these three observations portend multiple areas of regulatory “shifts” and the potential for associated industry impacts and opportunities, which can be evaluated across the following five regulatory signals:

- **Regulatory pullback**: Expect policy shifts to reduce investigation and enforcement focus and deregulatory pressures to reverberate globally. However, deregulation should not mean risk complacency.
- **Reduction in regulatory workforce**: Substantial reductions in the regulatory workforce signal diminished operational regulatory capacity and may cause a reduction in workforce talent at impacted regulatory agencies.
- **Authority of independent agencies:** Expect continued challenges on the independence of regulatory agencies, as well as evaluation of how the missions of regulatory agencies align with the goals of the administration.
- **Redirection of regulations:** Expect signals for redirection of regulations to include the repeal of new regulations and limited new regulations.
- **Resetting of enforcement:** Supervision of regulated institutions is shifting from traditional federal agencies to state offices, such as attorneys general.

The Late Fee rule, originally finalized in 2024, sought to cap late fees at US $8, eliminate higher fees for repeat offenses, and remove annual inflation adjustments with estimates of saving US $10 billion annually for consumers. However, the plaintiffs argued that the rule violated the Credit Card Accountability and Disclosure Act (CARD Act) and violated the Administrative Procedure Act.[5,6] As part of the agreement, the CFPB acknowledged these legal shortcomings and agreed to request the court to vacate the rule. The parties emphasized that the rule, if implemented, could have led to more late payments, reduced credit access, and penalized responsible cardholders.

The CFPB also announced that it will not prioritize enforcement actions taken on the basis of the “**Buy Now, Pay Later**” rule (the Rule) that the CFPB proposed in May 2024. Some credit cards have Buy Now, Pay Later features and protections that the Rule applied to Buy Now, Pay Later loans not issued via credit card should still apply to those issued via credit card.

Potential actions:

- **Continue to comply** with existing consumer financial protection rules and regulations.
- **Monitor enforcement actions** from state attorneys general as they pertain to financial services consumer protection laws.
- **Stay up-to-date with changes** to the CFPB and the overall consumer financial protection regulatory landscape.

Thought leadership

- Regulatory waves: Navigating the 2025 landscape
- First 100 Days: Where (De?)Regulation Goes from Here

Contact

Damian Plioplys
Financial Services Risk, Regulatory, and Compliance Principal
KPMG LLP

T 212 872 7959
E dplioplys@kpmg.com

[5]Source: Consumer Financial Services Law Monitor, “Texas Federal Court Denies CFPB’s Motions and Finds Plaintiffs Likely to Succeed on the Merits in Significant Credit Card Late Fee Rule Decision” December 9, 2024

[6]Source: Holland & Knight, “CFPB Credit Card Late Fees Rule Vacated by Texas District Court” April 22, 2025

Credit

The Federal Reserve Bank of New York published its Q1'25 update on Household Debt and Credit, noting that total household debt increased by US $167 billion and now totals US $18.20 trillion[7]. The Q1'25 balance represents a US $4.06 trillion increase from the outstanding balance as of the end of 2019, which is immediately before the start of the COVID-19 pandemic period. Credit card balances decreased by $29 billion, approximately 2.5 percent, between the fourth quarter of 2024 (Q4'24) and Q1'25 and the total balance is approximately US $1.18 trillion outstanding[8]. The decrease represents the largest quarterly drop since early 2021. However, the total outstanding credit card balances is approximately 6 percent higher between Q1'24 and Q1'25. The Federal Reserve Bank of New York also noted that other balances, including retail cards and other consumer loans, decreased by US $12 billion between Q4'24 and Q1'25.

The Federal Reserve Bank of New York reported that aggregate delinquency rates rose quarter-to-quarter and that as of Q1'25, approximately 4.3 percent of outstanding debt was in some stage of delinquency. The report noted that transition to early delinquency for most types of debt, including credit cards, was stable quarter-to-quarter. Additionally, the Federal Reserve Bank of New York noted that transition rates into serious delinquency for credit card debt, defined as "90+ days past due", was stable quarter-to-quarter.

During the most recent meeting in May 2025, the Federal Open Market Committee held interest rates steady. This marks the third consecutive meeting that the Federal Open Market Committee kept interest rates unchanged. In its May 13, 2025 market update, the KPMG Economics team noted that it expects the Federal Reserve to cut rates twice prior to the end of the year, starting in the fourth quarter of 2025, in the baseline forecast scenario[9].

Consumer sentiment continues to drop from the levels seen at the beginning of the year. Additionally, there continues to be uncertainty surrounding global trade and potential downside risks associated with tariffs and potential trade wars. Considering the factors above, credit performance will remain challenging in the current economic environment and predicting credit loss will continue to be challenging.

[7] Source: The Federal Reserve Bank of New York, "Household Debt and Credit Report" (May 2025)
[8] Source: KPMG, "Household debt is reverting to pre-pandemic levels" (May 15, 2025)
[9] Source: KPMG, "Economic Compass: Narrowly averting recession: Decoupling, de-escalation and weathering storms" (May 13, 2025)

Potential actions:

- Continue to monitor model performance and recent trends and analyze historical data reflective of a similar economic scenario.
- Continue to coordinate among the various functions, including credit and accounting, to ensure that effective management review and challenge is being performed and is documented, especially as it relates to macroeconomic forecasting used in calculating the allowance for credit losses.

Thought leadership

- KPMG Economics - Consumer Spending and Household Debt
- Narrowly averting recession: Decoupling, de-escalation and weathering storms

Contact

Karen Silverman

Financial Services Partner
KPMG LLP

T 212-954-1377
E ksilverman@kpmg.com

Legislative landscape

The Credit Card Competition Act (the CCC Act) was first introduced in 2022 and was introduced again in 2023. The previously introduced legislation was bipartisan and had the stated purpose of enhancing competition and choice as it relates to credit card networks. The bills introduced in 2022 and 2023 were not brought to vote.

The previously introduced bill proposed to inject more and fairer competition in the credit card industry by requiring credit card issuers that have assets over US $100 billion to have a minimum of two payment networks, with one being outside the two largest payment networks. By requiring a network outside of the two largest, the CCC Act intended to create more competition among networks and ultimately result in lower processing fees.

In Q2'2025, Senator Roger Marshall (Kansas) filed an amendment to add credit card payment network mandates to an unrelated bill that was focused on establishing a regulatory framework for payment stablecoins. The amendment filed by Senator Marshall incorporated the previous text of the Credit Card Competition Act legislation into the GENIUS Act.[10] However, in June 2025 the U.S Senate moved to advance the GENIUS Act without the CCC Act amendment included.[11] It is currently unknown if or when the CCC Act amendment will be reintroduced to Congress.

Potential actions:

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

Thought leadership

- [Ten Key Regulatory Challenges of 2025: Mid-Year]
- [FS Fast 5: Payments Modernization]
- [Modernizing payments: A new era]
- [GENIUS Act: Payment Stablecoin Framework – Senate Approves]

Contact

Damian Plioplys
Financial Services Risk, Regulatory, and Compliance Principal
KPMG LLP

T 212 872 7959
E dplioplys@kpmg.com

[10] Source: KPMG, "GENIUS Act: Payment Stablecoin Framework – Senate Approves" (June 2025)
[11] Source: CardRates.com, "GENIUS Act Clears Senate Without Credit Card Competition or Rate Cap Amendments" (June 20, 2025)

Accounting

On April 30, 2025, the Financial Accounting Standards Board (FASB) and Staff met and continued discussion on the proposed Accounting Standards Update (ASU) – *Financial Instruments – Credit Losses (Topic 326): Purchased Financial Assets.*

During this meeting, the FASB and staff revised the project objective and decided to enact improvements to the accounting for purchased financial assets (PFA) via narrow amendments.

The amendments will apply to loan receivables (including revolvers), excluding credit cards. The amendments will not apply to held-to-maturity debt securities. Additionally, the FASB and staff decided to maintain the existing accounting for purchased financial assets with credit deterioration.

The FASB decided that the amendments should be applied prospectively for annual reporting periods after December 15, 2026, and interim reporting periods within those annual reporting periods. Early adoption is permitted for any annual or interim reporting period for which the entity's financial statements have not yet been issued.

Potential actions:

- **Continue to monitor** updates from the FASB and staff regarding the final ASU on PFA.

Contact

Karen Silverman

Financial Services Partner
KPMG LLP

T 212-954-1377
E ksilverman@kpmg.com

Mario Mastrantoni

Financial Services Partner
KPMG LLP

T 704-370-4362
E mmastrantoni@kpmg.com

Chris Boyles

Partner, Advisory
KPMG LLP

T 213-955-8484
E cboyles@kpmg.com

Michael Ch'ang

Advisory Managing Director
KPMG LLP

T 202-503-7258
E mchang@kpmg.com

Contacts

Peter Torrente

US Sector Leader, Banking & Capital Markets

ptorrente@kpmg.com

Diana Kunz

Audit Sector Leader, Banking & Capital Markets

dmesch@kpmg.com

Stephen Kennedy

Industry Insights Leader, Banking & Capital Markets

stephenkennedy@kpmg.com

Andrew Ellis

Banking Consulting Leader

alellis@kpmg.com

Agnel Kagoo

Capital Markets Consulting Leader

akagoo@kpmg.com

Mark Price

Tax Industry Leader, Banking & Capital Markets

mhprice@kpmg.com

Liz L'Hommedieu

National Tax Industry Deputy Leader, Banking & Capital Markets

elhommedieu@kpmg.com

Henry Lacey

Deal Advisory Leader, Banking & Capital Markets

hlacey@kpmg.com

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