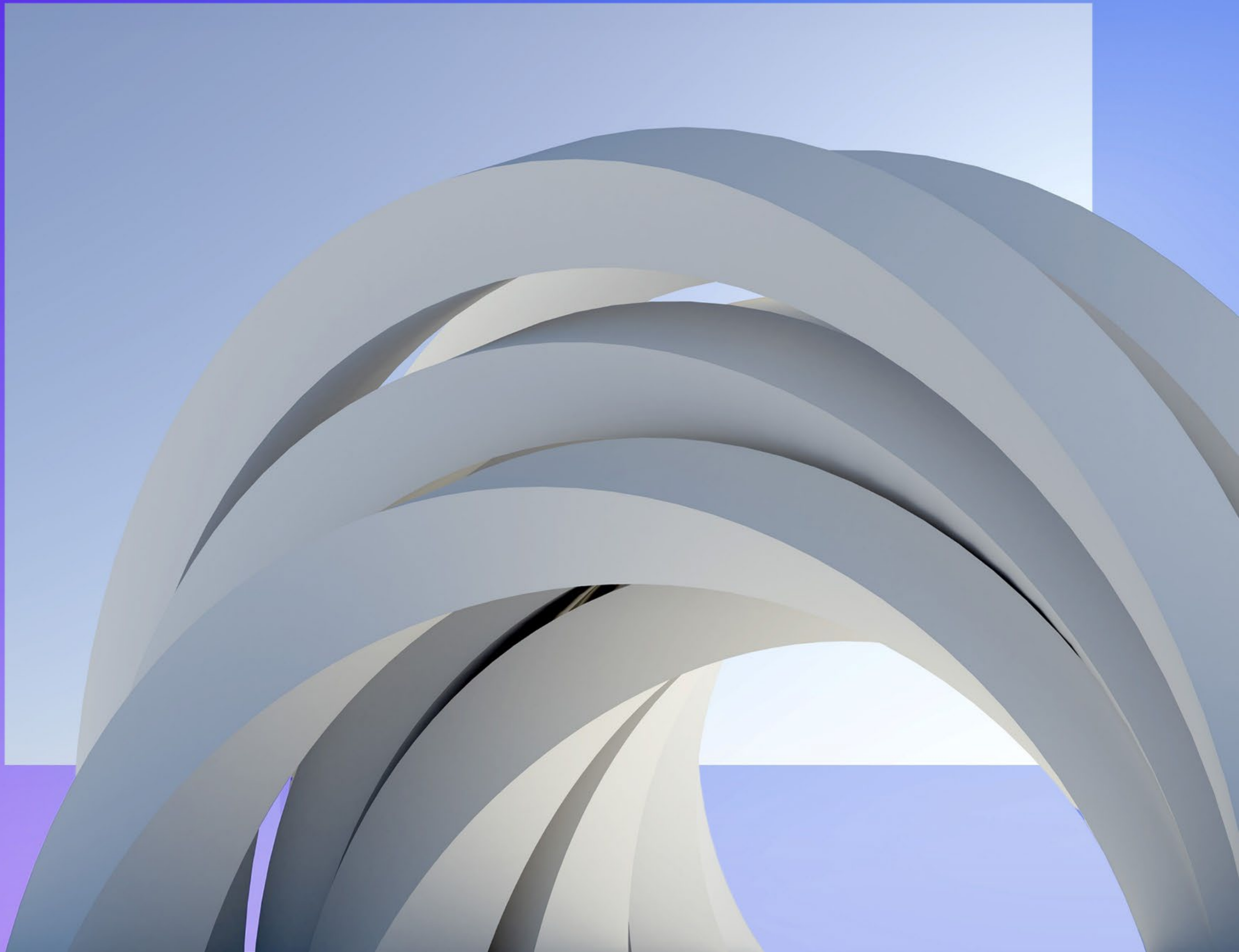
Addressing top of mind issues for credit card issuers

April 2025



Contents

Policy in motion

The policy landscape is constantly evolving, and the Trump administration has brought a wave of regulatory and proposed legislative changes that impact businesses, industries, and individuals alike. Staying ahead of economic uncertainty isn't just about reacting—it's about being proactive, informed, and ready to adapt.

Visit these KPMG Insights for the latest thinking on trade, fiscal and regulatory policy changes:

Policy in motion: Insights for navigating the Trump administration with confidence

Climbing a wall of worry: Navigating uncertainty amidst an erosion of trust

Trade and Tariff Insights

Tax Policy Trifecta

First 100 Days: Regulatory Signals

Strategy

The first quarter of 2025 is off to a fast start with multiple events occurring that impact the credit card industry. From shareholder approval of the Capital One and Discover merger on February 18, 2025, to the Trump administration's actions to pause future Consumer Financial Protection Bureau (CFPB) activity, to the sale of Ally's credit card business to Cardworks for $2.3 billion, industry participants are actively executing strategic plans and navigating a changing regulatory environment.

The uncertainty in the economy and the continued rise in US consumer credit card debt to another new high of $1.21 trillion is driving card issuers to reassess the risk of their card portfolios against their overall business strategy. Many industry participants have taken actions throughout 2024 to lay the groundwork for sales that may impact their consumer lending businesses in 2025 (e.g., Ally, Goldman, Oportun).

With the Capital One and Discover merger approved, other credit card issuers are looking at the implications to their business and determining how to best compete with the soon-to-be number one card issuer in the United States. Industry professionals anticipate the newly formed company (and closed loop and open loop card issuer) will push the ceiling on consumer credit card rewards and rewards programs. Two of the top three credit card issuers, JP Morgan Chase Bank and American Express, have made progress with integrating their card programs with travel, leisure, and hospitality perks by making various acquisitions.

There has been further market activity for companies that process issuer transactions. For example, Marqeta acquired TransactPay, which allows Marqeta to pursue expansion into Europe. Additionally, Zeta received $50 million in a strategic fundraise and now has a valuation of approximately $2 billion. While the overall impact of these transactions will not be immediately known, industry participants should monitor whether consolidation of these issuer processors will continue or if new market entrants can continue to carve a niche for themselves in the US market.

Potential actions to include:

- Conduct scenario planning related to various headwinds and uncertainties facing the industry and evaluate your current and future business strategies (especially considering the impending Capital One and Discover merger).
- Assess if inorganic growth actions might be in scope for this year.
- Review current rewards program 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.

Contacts

Jonathan Langlois

Financial Services Risk, Regulatory, and Compliance
KPMG US

T: 704-497-3937
E: jlanglois@kpmg.com

Michelle Swiec

Financial Services Risk, Regulatory, and Compliance
KPMG US

T: 404-222-3000
E: mswiec@kpmg.com

Risk and regulatory

The new Trump administration has appointed a new head of the CFPB, with Russell Vought being placed as Acting Director. The new acting director has issued several directives to CFPB staff, including immediate:

- Ceasing of all supervision and examination activity
- Ceasing of all stakeholder engagement
- Ban on issuing any public communications.

Directives also reiterate prior issuances in:

- Ceasing of all rulemaking- and guidance-related activities
- Suspension of enactment dates of all final rules issued or published that are not yet effective
- Pausing of all pending investigations and enforcement activity.

It is worth noting that the CFPB's enumerated consumer financial protection rules remain in place and compliance with those rules is required until they are revised or rescinded through the notice and comment process. Additionally, the Consumer Financial Protection Act (CFPA) permits individual state attorneys general to enforce the federal consumer financial protection laws independently of the CFPB, and changes to the CFPB and CFPA require Congressional action.

In March 2025, a federal judge granted the CFPB 30 days to try to settle the lawsuit related to the proposed credit card late fee rule that would cap late fees at $8. The rule is currently under a preliminary injunction which blocked implementation of the rule.

Potential actions to include:

- **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

- Special Alert: New CFPB Acting Director; Additional Pauses on CFPB Activities
- Post-Election Regulatory Insights Industry View

Contact

Amy Matsuo
US Regulatory Insights Practice Leader
KPMG US

T: 919-280-5798
E: amatsuo@kpmg.com

Damian Plioplys
Financial Services Risk, Regulatory, and Compliance
KPMG US

T: 212-872-7959
E: dplioplys@kpmg.com

Credit

The Federal Reserve Bank of New York published its Q4'24 update on Household Debt and Credit, noting that credit card balances increased by $45 billion between Q3'24 and Q4'24 and are approximately $1.21 trillion in outstanding balance, a 7.3 percent year-over-year increase. The change represents an 8.1 percent increase over the prior-year balance. Additionally, "Other Balances" which include both retail credit cards and other consumer loans, increased by $8 billion. The Federal Reserve Bank of New York reported that aggregate delinquency rates rose again in Q4'24 with 3.6 percent of outstanding debt in some stage of delinquency. The report noted that the transition to early delinquency for credit card balances slightly increased while nearly all other debt types remained steady. Additionally, the transition to serious delinquency, defined as "90+ days past due", increased for credit cards.

At the March 2025 meeting, the Federal Open Market Committee held interest rates steady. The committee previously held rates steady in January 2025 and cut rates in each of its previous three meetings. The KPMG Economics team notes that The Federal Reserve included a new clause in their statement noting that uncertainty around the economic outlook has increased. KPMG Economics does not expect rate cuts by the Federal Reserve in 2025.

Credit performance remains challenging in the current environment. Persistent uncertainty around trade policies and global economic conditions led to increased market fluctuations in the first quarter and a slowdown in consumer confidence, adding new layers of complexity to economic forecasting and its impact on the Allowance for Credit Losses. Further, predicting credit loss will continue to be difficult as uncertainty around the economic environment over the next few years persists. At the American Institute of Certified Public Accountants (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 Q1 2025
- KPMG Economics Q1 2025
- 2024 AICPA Conference on Bank & Savings Institutions

Contact

Karen Silverman

Financial Services Partner
KPMG US

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

Capital

Significant uncertainty and doubt weigh on Basel III Endgame (B3E), which was initially proposed and announced in July 2023 with the goal of aligning global capital standards and providing differentiated risk-adjusted capital methodologies across all bank assets.

While the proposed rules were contested by both litigation and lobbying efforts, a reproposal was announced in September 2024. The reproposal was never issued and there was continued opposition from parties that were opposed to increasing bank capital and additional regulatory complexity. Additionally, some parties opposed the reproposal and insisted that that it was insufficient when compared to the original proposal.

The current Trump administration and Congress are not expected to support new rulemaking, and the B3E initiative has lost one of its main proponents in Michael Barr, who resigned as vice-chair for Supervision at the Federal Reserve Bank (FRB), though he remains on the FRB Board of Governors. FRB Chair Jerome Powell stated that some form of B3E remains a goal of the FRB, but he did not specify a timeline for completion and that enacting the change will require new leadership to be confirmed at the Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation.

Potential actions to include:

- Continue to **monitor announcements** around regulatory capital rules and implementation timelines.
- **Pause aspects of regulatory capital efforts** to address B3E that do not align with other initiatives.
- Refocus on **return-on-capital strategy and efficiency**.

Thought leadership

- First 100 Days – New Administration Regulatory Changes

Contacts

Mark Nowakowski
Financial Services Risk, Regulatory, and Compliance
KPMG US

T: 404-222-3192
E: mnowakowski@kpmg.com

Legislative landscape

The Credit Card Competition Act (the 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. It is expected that the bill could be reintroduced to Congress.

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 $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 on 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.

Contact

Damian Plioplys

Financial Services Risk, Regulatory, and Compliance

KPMG US

T: 212-872-7959
E: dplioplys@kpmg.com

Accounting

On October 10, 2024, the Financial Accounting Standards Board (FASB) met to continue deliberations on its proposed 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, 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 information technology (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. 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.

In December 2024, the FASB and Staff discussed the gross-up approach related to revolving credit arrangements and directed the Staff to perform additional research on credit cards and other consumer revolvers to determine which assets should be included in a scope exception. We expect that the FASB will consider whether to exclude credit cards and other consumer revolvers from the scope of the project at a future meeting.

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.
- **Continue to monitor updates** from the FASB and Staff regarding the treatment of revolving credit arrangements, including potential scope exceptions.

Thought leadership

- ASU Topic page
- 2024 AICPA Conference on Banks & Savings Institutions

Contact

Karen Silverman

Financial Services Partner
KPMG US

T: 212-954-1377
E: ksilverman@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 I'Hommedieu

National Tax Industry Deputy Leader, Banking & Capital Markets

elhommedieu@kpmg.com

Henry Lacey

Deal Advisory Leader, Banking & Capital Markets

hlacey@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: **kpmg.com**