Addressing top of mind issues for credit card issuers

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Update

The US credit card industry has experienced significant developments in the fourth quarter of 2025 (Q4'25), marked by shifting consumer sentiment and continued merger and acquisition (M&A) activity. Here's a breakdown of the key trends and updates:

- The Q4’25 University of Michigan Consumer Sentiment[1] survey indicates an increasingly cautious consumer sentiment this quarter, with the prolonged federal government shutdown and persistence of elevated prices likely weighing on consumers. The negative sentiment in Q4'25 contrasts with the more optimistic outlook in the third quarter of 2025 (Q3'25).
- Despite concerns, many issuers anticipate strong consumer and business spending during the holiday season, with financially healthy consumers driving most of the activity while subprime borrowers continue to struggle.
- The industry has seen notable M&A, as well as partnerships between card issuers and other financial technology companies. Additionally, new cobrand relationships have emerged and brought forth expanded card program offerings and enhanced consumer benefits.[2]
- The establishment of a regulatory framework for stablecoins has prompted some issuers to explore new payment solutions and partnerships with relevant firms.

As 2026 begins, it is clear that US credit card issuers are navigating a complex landscape of consumer behavior, regulatory changes, and technological innovations. With the rise of stablecoins and continued M&A activity, the industry is likely to remain dynamic, with issuers competing for top-of-wallet positioning and adapting to emerging trends. One perspective is that the industry's ability to innovate and respond to regulatory developments will be crucial in determining which players emerge as leaders in the coming year.

Opportunity

1

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

2

Conduct scenario planning related to various headwinds and uncertainties facing the industry and evaluate your current and future business strategies, including inorganic growth opportunities.

Resources

- Data modernization: Banks ready for the next stage
- Accelerating Payments Modernization: Strategies for Banks to Stay Ahead
- KPMG Consumer Pulse | Holiday 2025
- A tale of two economies
- CPI cools in whacky report
- Early chill for employment

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[1] University of Michigan, “Surveys of consumers” (August 2025) [Press Release]

[2] American Express, “American Express Announces Major Updates Coming to U.S. Consumer and Business Platinum Cards® Later This Year” (June 16, 2025) [Press Release]

Risk and regulatory

Update

The credit card industry is experiencing significant regulatory shifts driven by several key updates, including the Consumer Financial Protection Bureau's (CFPB) premature termination of consent orders against financial institutions, which occurred after the majority of civil penalties and redress payments were made.[3] Additionally, the industry is being impacted by the advancement of open banking through the CFPB's proposed Rule 1033, potential reductions in interchange fees driven by changes made by major payment processors,[4] and evolving proposed state-level legislation that would regulate credit card transactions at ATMs. These developments have important implications for financial institutions, merchants, and consumers:

- The CFPB's actions signal a potential shift in enforcement approach, focusing on compliance and customer restitution.
- The proposed Rule 1033 aims to facilitate secure data sharing with third-party fintech applications, potentially increasing competition and allowing new market entrants.
- The reduction in interchange fees by Visa and Mastercard[5] gives merchants more flexibility in accepting card categories, but may lead to less lucrative rewards for cardholders.
- The proposed bill in Illinois could eliminate a revenue source for financial institutions from cash advance fees and interest.

These regulatory developments and market changes underscore a broader trend toward increased consumer protection and market competition in the credit card sector. As regulatory environments continue to evolve, financial institutions must adapt their strategies to comply with emerging requirements while maintaining competitive offerings. One perspective is that the convergence of federal regulatory actions and state-level initiatives will drive significant changes in how credit card products are designed, marketed, and managed, ultimately reshaping the industry landscape.

Opportunity

1

Monitor new and updated compliance requirements from state governments and update operations accordingly.

2

Review comments from institutions on the proposed Open Banking Rule 1033 from the CFPB.

Resources

- Ten Key Regulatory Challenges of 2026
- Regulatory Recap: November 2025

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[3] Banking Dive, "CFPB ends U.S. Bank, Apple consent orders early" (September 23, 2025)

[4] Payments Dive, "CFPB seeks comments for new open banking rule" (August 21, 2025)

[5] Financial Times, "Visa and Mastercard forgo deal to end long-term dispute with merchants" (November 10, 2025)

Credit

Update

The Federal Reserve Bank of New York's Q3'25 update on household debt and credit revealed that consumers continued the trend of increasing overall household debt balances. Here's a breakdown of the key findings and their implications:

- Total household debt reached US $18.59 trillion, rising by US $197 billion in Q3'25, driven by credit card, mortgage, student loan, and other retail and consumer finance loan growth.[6]
- Credit card balances climbed by US $24 billion to reach US $1.23 trillion, a 5.75 percent year-over-year increase.
- Delinquency rates remained elevated as of Q3'25, with 4.5 percent of outstanding debt in some stage of delinquency, up 0.1 percent from the second quarter of 2025.
- The Federal Open Market Committee voted to cut short-term interest rates by a quarter point in both the October and December meetings, further lowering the target range to 3.50 percent to 3.75 percent. This marks the third rate cut in 2025 and reflects concerns among committee members, particularly around labor market performance.

The data indicates continued increases in consumer debt, including credit card loan growth. Additionally, continued elevated levels of aggregate delinquency remain a watchlist item for the industry. Credit card issuers should continue to monitor trends in consumer credit and adjust their strategies accordingly.

Opportunity

1

Continue to monitor model consumer performance and analyze whether consumer behavior and credit performance aligns with your entity's risk appetite.

2

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.

Resources

- Hawkish cut by the Fed
- Use of credit expanded in October

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[6] The Federal Reserve Bank of New York, "Household Debt and Credit Report" (May 2025)

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