Addressing top of mind issues for credit card issuers

July 2026

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Strategy

Credit card issuers are operating against a steadier macro backdrop but persistent consumer and margin pressures:

- While the Federal Reserve has held its benchmark rate near ~3.5 percent following late-2025 cuts, average credit card annual percentage rates (APRs) remain elevated around 21 to 22 percent as issuers protect profitability. US revolving balances continue to hover at record levels above $1.3 trillion, yet credit performance has only softened modestly: Overall delinquencies are edging up, while serious delinquencies remain near prepandemic norms. The data continues to reflect a K-shaped consumer environment, with higher-income households driving spend and lower-income segments increasingly relying on credit for essentials.
- Strategic consolidation and partnership activity intensified during Q2, reinforcing scale and exclusivity as key differentiators. Capital One completed its US $5.15 billion acquisition of Brex,[1] underscoring issuers' push to acquire digital and capabilities enabled by digital and artificial intelligence (AI) through inorganic growth. Co-brand realignments were equally notable: Amazon moved its US small-business card program from American Express to U.S. Bank and Mastercard,[2] while Citi became the exclusive issuer of American Airlines' AAdvantage portfolio. These moves highlight rising competition for marquee partners and the strategic value of absorbing large, loyal portfolios to accelerate growth.
- At the product level, issuers continue to recalibrate pricing and rewards to balance customer value with sustainability. Premium card annual fees have pushed higher—often nearing or exceeding US $800—supported by expanded travel, lifestyle, and lounge benefits, while mid-tier rewards cards now average around $150 annually. As reward costs rise and loyalty economics tighten, issuers are refining segmentation and simplifying value propositions where possible. Together, these trends reinforce two priorities for 2026: pursue selective mergers and acquisitions (M&A) and co-brand partnerships that enhance scale and capabilities, and maintain disciplined scenario planning around credit, regulatory, and economic uncertainty to ensure long-term resilience.

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Opportunity

1

Re-evaluate deals and partnerships – Explore inorganic growth avenues (e.g., acquisitions, fintech alliances, and co-brand partnerships) that can strengthen digital capabilities, expand customer reach, or solidify key distribution channels in response to competitors' moves.

2

Continue rigorous scenario planning around potential headwinds (e.g., regulatory changes, economic pressures) and competitive disruptions to stress-test strategic plans and **adjust business strategies and risk appetites as needed** while exploring innovative offerings (e.g., emerging payment technologies or alternative loyalty models) to maintain resilience and competitive edge in a dynamic market landscape.

Resources

- Transforming with confidence and clarity in volatile times

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[1]Capital One, "Capital One completes acquisition of Brex" April 7, 2026

[2]Amazon Business, "Introducing the new Prime Business Card and Amazon Business Card", May 13, 2026

[3]U.S. News & World Report, "Barclays AAdvantage Aviator Cards Flying Over to Citi: What Cardholders Should Know," April 13.2026

Risk and regulatory

CFPB Final Rule 1071

In May 2026, the Consumer Financial Protection Bureau (CFPB) revised certain provisions of the Equal Credit Opportunity Act (Regulation B)[4], narrowing the initial scope to focus on core lending products, providers, and data points with the intent to reassess the rule and expand the scope incrementally over time.

Credit card issuers should be aware that the final ruling changes the definition of "covered financial institutions" by raising the origination threshold from 100 to 1,000 covered credit transactions for each of two consecutive years and excludes Farm Credit System lenders. The ruling also amends the definition of a small business, adjusting the maximum gross annual revenue threshold in the rule's definition from "$5 million or less" to "$1 million or less". Additionally, data collection under the final rule will remove discretionary data points, focusing on core data points specifically identified in section 1071 and a limited number of other data points needed to facilitate the collection. The rule will be effective June 30, 2026, with a compliance date of January 1, 2028.

Recent state laws and rulings credit card swipe fees

Card issuers should monitor the legal and regulatory environment at a state level regarding swipe fees that merchants pay on transactions, with recent state level actions impacting what aspects of a transaction can be considered for the fee as well as how tax is calculated on the fee.

In 2024, the state of Illinois passed the Interchange Fee Prohibition Act, which aimed to prohibit issuers, payment card networks, acquiring banks, and processors from collecting swipe fees on sales tax, excise tax, and tips with an implementation date of July 1, 2026. The legislation would require card issuers to calculate swipe fees based only on the nontax, nontip portion of Illinois transactions. In April 2026, the Office of the Comptroller of the Currency (OCC) announced an interim final order concluding that national banks and federal savings associations would not need to comply with this law;5 however, the attorney general of Illinois contends that the OCC's order is invalid.

Other states have been pursuing or have shown interest in pursuing legislative action on swipe fees similar to Illinois, including Colorado, where a bill was passed to exempt sales tax from the interchange fees charged to merchants. Additionally, Alabama enacted legislation that will go into effective in September 2026 that will exclude credit card transaction fees from the sales tax base.

AI in fraud detection

AI and advanced analytics enhance fraud detection by identifying suspicious activity and enabling faster risk response. These capabilities strengthen card issuers' defenses through pattern recognition, adaptive decisioning, and continuous learning, helping address key fraud risks such as skimming, unauthorized transactions, and account falsification.

Opportunity

1

Review internal technology structures and operational processes to determine whether they are compliant with the updated CFPB rule and take action to update processes and procedures to ensure compliance.

2

Monitor state-specific legislative actions regarding credit card swipe fees and determine the potential impact to existing systems and processes. Card issuers should also assess the potential impact of proposed legislation interchange fees could impact rewards programs and fraud compensation.

3

Assess current technology infrastructure and operational processes to ensure they can effectively support AI-driven fraud detection capabilities and take action to enhance monitoring, decisioning models, and control frameworks to address evolving fraud risks.

Resources

- Consumer Financial Protection Bureau Final Rule 1071
- Office of the Comptroller of the Currency Bulletin: Illinois Interchange Fee

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[4] Consumer Financial Protection Bureau, **"Small Business Lending under the Equal Credit Opportunity Act (Regulation B)", May 1, 20206**

[5] Office of the Comptroller of the Currency "Preemption of Illinois Interchange Fee Prohibition Act: Interim Final Order", April 24, 2026

Credit

The tale of two consumers – Affluent consumers drive spend while lower-income borrowers face increasing economic strain:

- After a series of three meetings with consecutive rate cuts, the Federal Reserve (Fed) held its benchmark interest rate steady in the January, March, and June 2026 meetings. The Fed's *Summary of Economic Projections* revealed a hawkish shift, with inflation expectations revised significantly upward and unemployment revised down.
- In the June 2026 meeting, the vote to hold rates unchanged was unanimous. Fed Chairman Kevin Warsh emphasized that the vote was "unambiguous and unanimous to deliver price stability".
- Despite continued elevated interest rates and indications that future rate increases are possible, recent retail consumer spending data indicates strong activity with retail sales increasing 4.9 percent year-over-year. Although spending activity remains robust, consumer financial cushion is waning, as evidenced by the lowest savings rate since October 2022 and serious credit card delinquency rising to levels not experienced since the Great Recession.[6] In the latest Q1 2026 *Household Debt and Credit Report,* the Federal Reserve Bank of New York reported that the total outstanding balance for credit card loans reached $1.25 trillion, an increase of $70 billion year-over-year.[7,8]

KPMG Economics also reported that although US consumers continue to spend, the overall health of less-affluent consumers continues to be strained. Issuers should continue to monitor credit portfolio trends and understand the increasingly K-shaped economy, in which affluent households drive spend while lower-income borrowers experience heightened economic strain.

Opportunity

1

Credit card issuers should **continue to monitor credit performance of both affluent and lower-income borrowers** and identify shifting trends and K-shaped economic recovery.

2

Credit card issuers should **carefully consider macroeconomic trends and evolving geopolitical events, paired with model performance** when evaluating adequacy of reserve levels in the first quarter.

Resources

- CECL Pulse Check Q2 2026
- KPMG Economics - April 2026 Consumer Spend Trends
- KPMG Economics - Warsh returns to his hawkish roots

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[6]KPMG, "Consumers continue to spend in April," May 14, 2026

[7]Federal Reserve Bank of New York, "Household debt and credit report," May 2026

[8]Federal Reserve Bank of New York, "Household Debt Balances Rise Slightly as Delinquency Transition Rates Hold Steady," May 12, 2026

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