Report on remittance transfers

Report to the President, the Senate Committee on Banking, Housing, and Urban Affairs, and the House of Representatives Committee on Financial Services

Recommendations regarding the transparency and disclosure to consumers of exchange rates; analysis of the potential use of remittance histories in the calculation of credit scores
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Executive summary

Each year, consumers in the United States send tens of billions of dollars to family members, friends, businesses, and others abroad. Much of this money is sent through remittance transfers, which are certain electronic transfers from U.S. senders to recipients in foreign countries.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the Consumer Financial Protection Bureau (CFPB) to issue a report on two topics related to remittance transfers: (1) the transparency and disclosure to consumers of exchange rates used in remittance transfers; and (2) the potential for using remittance histories to enhance the credit scores of consumers.

The first topic relates to the cost to consumers of remittance transfers. Exchange rates are a key factor in determining the amount a remittance recipient receives and the price a remittance sender pays for a transfer. Exchange rates can also be a key factor in how consumers choose among remittance transfer providers. Thus, exchange rate information has the potential to educate consumers, empower them to compare remittance products, and facilitate competition among providers.

Consumers will soon have new ways to learn about exchange rates. The Dodd-Frank Act establishes new remittance disclosure standards. For most remittance transfers, the Act requires disclosures that list the exchange rate used, as well as the amount of currency that will be received abroad, and other information.

The CFPB recommends four principles for maximizing consumers’ ability to receive and use exchange rate information: (1) design, test, and use disclosures to maximize consumer comprehension; (2) facilitate consumers’ comparisons of remittance offerings; (3) adapt disclosures to the growing variety of channels that consumers use to initiate remittance transfers; and (4) couple information about exchange rates with an indication or estimate of the combined effects of fees and the exchange rate.

Implementation of the Dodd-Frank Act’s requirements will shed light on any need for additional exchange rate transparency measures. The CFPB also recommends that any such measures be evaluated and considered together with the range of mechanisms for benefiting and protecting remittance consumers.

The second topic addressed in this report is the potential use of remittance transfer data in credit scoring. Credit scores are measures of credit risk that can affect consumers’ access to credit and housing, among other things. The scores are generally based on information contained in consumer credit files at one of the three nationwide credit reporting agencies (CRAs). In the past, credit files have not routinely included remittance data. Thus, if remittance histories can help assess or predict the credit risk that consumers pose to lenders, adding such data to credit files could produce a change in the credit scores of some remittance senders. If remittance histories are predictive of
credit risk, the addition of remittance data might also allow credit scores to be generated about some consumers who were otherwise unscorable.

Inclusion of remittance data in credit scores could have positive consequences for some consumers born outside of the United States, who are more likely than others to make certain types of remittance transfers. Earlier research suggests that certain foreign-born individuals may be disproportionately likely to have credit histories that are insufficient to generate credit scores. For other foreign-born consumers, limited credit files may overestimate the credit risk they pose to lenders.

Whether and how remittance data might affect the credit scores of individual consumers would depend, however, on a number of factors, including the predictiveness of remittance histories, the particular scoring and business models developed to use remittance data, and the data already in individuals’ credit files. If remittance data can help predict credit risk, in some cases, that data might produce an increase in credit scores or permit the generation of credit scores for previously unscorable consumers; in other cases, credit scores might remain the same or decrease.

Willingness on the part of market participants – remittance transfer providers, CRAs, credit score developers, and lenders – to provide remittance histories and use them in credit scores will depend on the incentives and challenges that each would face. Likely business challenges include the size of the market for remittance-based scores, and the investments required to record and analyze remittance data accurately. Use of remittance histories in credit scores could also require investments and changes in business processes to ensure compliance with privacy, credit reporting, and fair lending laws.

For all market participants, a critical question will likely be the extent to which remittance histories can improve the predictiveness of credit scores, or be used to generate reliable first-time credit scores. In addition to discussing the incentives for and challenges of using remittance data in credit scores, this report describes planned CFPB research that will assess the predictiveness that remittance histories might add to credit scores.

This report is based on the CFPB’s review of existing information and interviews of market participants, researchers, and other industry experts. Part I provides background on the remittance transfer market, including information about consumer demand, providers, products, and consumers’ shopping and purchase behavior. Part II provides recommendations on the disclosure of exchange rates. Part III discusses whether and how remittance histories might be used to enhance credit scores of remittance senders, the potential barriers to such use, and the CFPB’s planned research regarding remittance histories and credit scores.
I. Background on remittance and other international money transfers

   A. Consumer demand

Remittance transfers, as defined by the Dodd-Frank Act,¹ are a subset of U.S. consumers’ funds transfers to recipients abroad. Remittance transfers are electronic, made to designated recipients in other countries, and initiated by remittance transfer providers.²

U.S. consumers send funds abroad for many reasons. Funds transfers may be used, for example, to pay the tuitions of children studying abroad, to purchase real estate, to pay for online purchases, or to assist family members with their expenses. Some transfers may be to businesses. But industry participants suggest that many or most of U.S. consumers’ transfers to recipients in other countries are to friends and relatives who live abroad. These transactions will be referred to as “personal transfers”; they are the focus of most of the available data and research. The diagram (at left) is a notional illustration of this and other terms.

Diagram 1: Remittance transfers and related transfers from U.S. consumers to other countries (circles not to scale)


² Section 1073(a) of the Dodd-Frank Act (15 U.S.C. § 16930-1(g)(2)) provides that, for purposes of the Electronic Fund Transfer Act (EFTA), 15 U.S.C. § 1693 et seq., the term “remittance transfer”:

   (A) means the electronic (as defined in section 106(2) of the Electronic Signatures in Global and National Commerce Act (15 U.S.C. 7006(2)) transfer of funds requested by a sender located in any State to a designated recipient that is initiated by a remittance transfer provider, whether or not the sender holds an account with the remittance transfer provider or whether or not the remittance transfer is also an electronic fund transfer, as defined in section 903 [of the EFTA]; and

   (B) does not include a transfer described in subparagraph (A) in an amount that is equal to or lesser than the amount of a small-value transaction determined, by rule, to be excluded from the requirements under section 906(a) [of the EFTA].
Approximately six million households nationwide send personal transfers each year, a 2008 U.S. Census Bureau survey suggests. Most of the senders are foreign-born. The Census Bureau survey showed that individuals born in Latin America and Asia alone accounted for more than half of the sending households; in nearly a quarter of all sending households, all adults were born in Mexico.

Many of these personal transfers are part of a worldwide phenomenon of migrants sending money back to their countries of origin. Globally, the World Bank estimates that the flow of personal transfers, and certain compensation, goods, services, and assets from migrants to their native countries is significantly larger than the flow of official development aid. Individually, personal transfers are commonly used to pay for recipients’ basic household needs, support their education, fund investments, address emergency needs, or provide similar assistance.

Consumers’ patterns of sending money abroad can vary. For example, there is a wide range in the frequency with which consumers transfer money abroad. In its 2008 survey, the Census Bureau found that 33 percent of the households that sent personal transfers did so infrequently (one or two times in the prior year). But a similar percentage of households reported making transfers frequently (more than 10 transfers in the prior year). Similarly, transfers sent abroad for business purposes may be one-time or routine transactions, if made to pay recurring obligations like mortgages.

The size of U.S. consumers’ transfers to other countries also varies. Surveys suggest that personal

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7 U.S. Census Bureau Analysis, supra note 3, at 19; see also Bendixen, supra note 3, at 22 (A survey of natives of Latin America found that on average, those who sent money back to their families in Latin America did so, on average, 15 times per year).
transfers average between $200 and $400, though a substantial number may be in the thousands of dollars.\(^8\) And consumers may send much larger transfers if, for example, they are sending money to purchase a home or make another significant asset purchase.

U.S. consumers annually send tens of billions of dollars to recipients in other countries, the available research suggests. There is no precise estimate, however, of either the total volume of U.S. consumers’ funds transfers to other countries, or of the subset of such transfers that are remittance transfers. Researchers have estimated the volumes of certain categories of U.S. consumers’ transfers that include some or all remittance transfers. The estimates of those related flows range from $12 billion to more than $50 billion annually. The differences in the estimates are due to differences in the types of transfers measured and a lack of clear data.\(^9\)

**B. Providers and their products**

Under the Dodd-Frank Act, a remittance transfer is initiated by a remittance transfer provider (RTP): a “person or financial institution that provides remittance transfers for a consumer in the

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\(^9\) $12 billion: The Census Bureau estimate for monetary transfers sent abroad by all U.S. households. The Census Bureau acknowledged that the number may be an underestimate. U.S. Census Bureau Analysis, supra note 3, at 2-3, 12-14.

Around $40 billion: The estimate of both a private consulting firm (for the Financial Crimes Enforcement Network) and the Bureau of Economic Analysis (BEA), but for different sets of transfers. The consulting firm estimated in 2005 that $42 billion was sent internationally through money transmitter companies, but it is unclear whether the figure includes transfers sent into the United States, as well as transfers sent from the United States. KPMG, supra note 8, at 5. The BEA estimated that in 2009, foreign-born consumers who had spent one year or more in the United States sent approximately $37 billion in cash and in-kind transfers to households abroad, and that other foreign-born individuals in the United States earned $11 billion in compensation, some of which may have been sent abroad. BEA, *Balance of Payments: International Transactions, 1992-2010* (online at www.bea.gov/international/supplemental_estimates.htm) (June 16, 2011); Christopher L. Bach, BEA, *Annual Revision of the U.S. International Accounts, 1991-2004, Survey of Current Business*, at 64-66 (July 2005) (online at www.bea.gov/scb/pdf/2005/07July/0705_ITAAnnual.pdf); Congressional Budget Office, *Migrants’ Remittances and Related Economic Flows*, at 5 (Feb. 2011) (online at http://www.cbo.gov/ftpdocs/120xx/doc12053/02-24-Remittances_chartbook.pdf).

normal course of its business, whether or not the consumer holds an account with such person or
financial institution."

Historically, most personal transfers have been sent by money transmitter companies that are not
depository institutions. (For purposes of this report, “depository institutions” are banks, thrifts, or
credit unions). These money transmitters have usually focused on cash-to-cash transfers. In other
words, they permit U.S. consumers to submit cash in the United States, often to a retail agent of the
money transmitter. Money transmitters then distribute transferred funds to recipients in cash,
usually through a disbursing agent in the destination country. Money may be disbursed to the
recipient in U.S. dollars or local currency depending on the destination, the money transmitter’s
service offering, and the preference of either the sender or the recipient. The flows of information
and funds from sender to recipient are illustrated below in Diagram 2.

These cash-to-cash transactions can be attractive to consumers because of their accessibility: They
do not require either the sender or the recipient to have a bank account, access to an ATM, or a
separate financial instrument. Many cash-to-cash transfers are available for pickup within minutes of
being sent.

10 Dodd-Frank Act § 1073(a); 15 U.S.C. § 16930-1(g)(3).
11 For the purpose of this report, it is assumed that all money transmitters and depository institutions that provide
remittance transfers are RTPs.
12 In this report, the term “agent” does not denote a particular legal relationship. It includes legal agents, authorized
delegates, or affiliates that act on behalf of a money transmitter in some capacity.
13 See generally Andreassen, supra note 8, at 4. The money transmitter and its agents may settle their accounts with
each other after the funds are made available to the recipient. See generally Committee on Payment and Settlement
Systems and the World Bank, General Principles for International Remittance Services, at 45-46 (Jan. 2007) (online at
“General Principles”).

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Diagram 2: Overview of cash-to-cash remittance transfers sent by money transmitters

Step 1: Funding
Sender

US $

Step 2: Communication
Money transmitter

Foreign currency / US $

Step 3: Receipt
Recipient

Foreign currency / US $

Step 4: Settlement of funds
Sending agent

US $

Disbursing agent

Source: Adapted from The World Bank, Global Economic Prospects: Economic Implications of Migration and Remittances, at 151 (2006). A cash-to-cash transfer may involve other intermediaries, not reflected in this diagram. For example, depository institutions are often involved in the settlement of funds between a money transmitter and its agents.

Industry participants and researchers report that cash-to-cash transfers made through money transmitters continue to account for the majority of personal transfers. But as the sophistication of consumers and money transmitters has increased, money transmitters have started offering an increasing range of other transfer methods as well. Some enable consumers to fund transfers with their credit or debit cards, or by debiting their bank accounts. Funds can also be received abroad in recipients’ bank accounts. And several money transmitters have begun to permit consumers to

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transfer or receive money through accounts tied to email addresses or mobile phone numbers (often called Internet or mobile phone “wallets”).

Depository institutions can also offer consumers options for transferring money abroad. Unlike money transmitters, these institutions have historically focused on sending money from one deposit account to another through wire transfers. Often used for larger transactions, wire transfers can be received within several days (or sometimes weeks) after they are sent. By partnering with money transmitters or building their own products, some depository institutions have also begun offering cash-based transfer products that operate similarly to money transmitters’ products. Additionally, the Federal Reserve System is working to expand the international reach of its Automated Clearing House (ACH) services, which give depository institutions an alternative means of transferring money from accounts either to other accounts or to be picked up in cash, depending on the destination country.\(^\text{15}\)

Consumers can also send money abroad by mailing ATM, debit, or pre-paid cards to recipients abroad. ATM and debit cards can be linked to the sender’s bank account; pre-paid cards can be linked to an account funded by the sender.

Under the rules proposed by the Board of Governors of the Federal Reserve System (Federal Reserve Board) to implement the Dodd-Frank Act’s remittance provisions, most of the transfer methods described above would likely constitute “remittance transfers.” The proposed rules set forth definitions of “remittance transfer” and related terms, and the proposed staff commentary lists cash, wire, ACH, and certain prepaid card-based transactions as examples of remittance transfers. But the proposed comments state that if a sender retains the ability to withdraw funds from an account, giving a recipient access to that account does not constitute a remittance transfer because there is no “designated recipient” for funds.\(^\text{16}\)

Furthermore, not all mechanisms for sending money abroad are electronic. For example, consumers can send cash or money orders through the mail or with a courier. The limited information available suggests that these and other informal methods of sending money may account for a significant portion of the flows of money to some countries or regions.\(^\text{17}\)


\(^{16}\) Board Proposed Rules, supra note 14, at 29,907-08, 29,954.

\(^{17}\) In surveys of migrants from Latin America and the Philippines in the United States, the great majority of the survey participants reported that they preferred sending money home through banks, credit unions, or non-depository money transfer companies (including through ATM and debit cards, or through Internet-based companies), rather than through friends, couriers, or other “informal” means. Manuel Orozco, Elizabeth Burgess, Netta Ascoli, Is there a Match Among Migrants, Remittances, and Technology?, at 18 (Sept. 30, 2010) (survey of Latin American-born money senders) (online at www.thedialogue.org/PublicationFiles/a%20match%20in%20migrants%20remittances%20and%20technology%20MO _FINAL_11.4.101.pdf) (hereinafter “Match”); Bendixen, supra note 3, at 24; Asian Development Bank, Enhancing the Efficiency of Overseas Filipino Workers Remittances, at 18 (July 2004) (online at www.adb.org/Documents/TARs/PHI/tar-phi-4185.pdf). But based on mathematical models, researchers have
C. Consumer purchase and shopping behavior

Consumers’ relationships with RTPs are an important consideration for both exchange rate transparency and potential use of remittance histories in credit scores. How consumers shop for and select RTPs may bear upon how and when exchange rate disclosures should be made. Likewise, consumers’ purchase behaviors may affect how their remittance histories could be collected and used to inform credit scores.

Most remittance transfers are initiated in-person, at the retail outlets of an RTP. Depository institutions generally operate through their local branches, while money transmitters generally operate through their own retail storefronts, or through grocery stores, financial services outlets, convenience stores, or other retailers that serve as their agents. But as RTPs expand beyond cash- and account-based transfer products, some are also allowing consumers to initiate transactions by phone, through the Internet, with mobile phone text messages, or at automated stand-alone kiosks. Some RTPs initiate transactions exclusively through technology-based rather than in-person channels.

The convenience of a particular location or channel may be one of several factors that consumers consider when they shop among RTPs and remittance products. In summarizing the available research, the Federal Reserve Board noted that “[s]ignificant factors” in consumers’ choices “include trust in the provider, security, reliability (i.e., having funds available at the specified time), and convenience to the recipient, particularly in markets where the recipient may have limited options where funds can be picked up. Fees and exchange rates are also key factors in choosing a provider.”

Once they have found products and locations that meet their needs, remittance consumers may establish ongoing relationships with single RTPs. Though the data on remittance consumer behavior is limited, in focus groups conducted to inform the Federal Reserve Board’s proposed remittance transfer rules, consumers who sent money abroad reported repeatedly using the same RTP for reasons including the convenience of the location, and “the conveniences resulting from


18 Some RTP-agent relationships are exclusive. In other cases, agents serve multiple RTPs, and therefore can offer consumers a variety of sending options from a single storefront.

19 Board Proposed Rules, supra note 14, at 29,904 (footnote omitted); see also ICF Macro, Summary of Findings: Design and Testing of Remittance Disclosures, at 3 (Apr. 20, 2011) (online at www.federalreserve.gov/newsevents/press/bcreg/bcreg20110512_ICF_Report_Remittance_Disclosures_(FINAL).pdf) (hereinafter “ICF Macro”) (“The factors most often identified as the most important in choosing a provider were the amount of fees charged, convenience of locations for the recipient, and convenience of locations for the sender.”).

20 Since some retail agent locations represent multiple RTPs, it is possible that some consumers may establish ongoing relationships with a single retail agent but switch among RTPs.
using the same provider, such as having their information already in the provider’s system, an understanding of that provider’s process, and loyalty rewards (e.g., a free phone call to the recipient).\textsuperscript{21}

In some cases, shopping for a new RTP may require significant time and effort. The price of a remittance transfer can depend on the amount sent, the speed of service, and the sending and receiving locations. As a result consumers may need to wait in line, fill out forms, or provide a number of details by phone or through the Internet in order to receive exact price quotes. Even then, direct price comparisons may be difficult. As explained in more detail in Part II, exchange rates – a component of price – may change frequently.

The effort required to compare remittance transfer offerings may be less for consumers who live in neighborhoods where competing RTPs and/or their agents are located near each other; money transmitter agents are often concentrated in neighborhoods with large numbers of foreign-born consumers. Furthermore, qualitative studies suggest that consumers may avoid the challenges of in-person comparison shopping by collecting price information online or through word-of-mouth networks.\textsuperscript{22} But even in neighborhoods with high concentrations of RTPs or their agents, and with access to the Internet or word-of-mouth networks, consumers’ opportunities to switch RTPs can vary. For example, a consumer sending funds to an unusual destination, to a rural area, or to a country whose business environment is risky may find few RTPs that offer appropriate services. A consumer’s options for transfers may also be constrained by the characteristics of that consumer or the recipient. If a sender speaks only a foreign language, for example, he or she may seek an RTP with staff who speak that language. A sender without Internet access will be unable to shop for or initiate transfers online. Similarly, a consumer without an account may be unable to access depository institution services. And if a recipient does not have a deposit account, then the sender cannot use an RTP that transfers only to such accounts.

Among certain groups of remittance senders and recipients, the limited use of information technology and payment instruments other than cash may pose a significant barrier to the adoption of emerging remittance products. Surveys suggest that foreign-born Latinos – who account for a large portion of remittance senders – use mobile phones in large numbers, but are significantly less likely than other consumers to use the Internet,\textsuperscript{23} have bank accounts,\textsuperscript{24} or use credit cards.\textsuperscript{25}

\textsuperscript{21} ICF Macro, supra note 19, at 3.

\textsuperscript{22} In focus groups conducted for the Federal Reserve Board, some consumers indicated that they use the Internet to determine rates at different providers, even if they then go to a store to send money in-person. See ICF Macro, supra note 19, at 3. In another set of focus groups, consumers who sent money to Latin America reported that they found it cumbersome to visit competitors’ physical locations to obtain price quotations; the participants instead tended to collect price information through word of mouth. Appleseed, The Fair Exchange: Improving the Market for International Remittances, at iii (Apr. 2007) (online at www.appleseednetwork.org/portals/0/documents/publications/thefairexchangeimprovingmarket.pdf).

\textsuperscript{23} Gretchen Livingston, Pew Hispanic Center, Latinos and Digital Technology, 2010, at 10 (Feb. 9, 2011) (online at pewhispanic.org/files/reports/134.pdf) (reporting that among foreign-born and Puerto Rico-born Latinos, the rate of Internet usage was 54 percent, compared to 81 percent for United States-born Latinos, 77 percent for non-Hispanic white adults, and 66 percent for non-Hispanic black adults). One survey found that 92 percent of natives of Latin America in the United States who made personal transfers had a mobile phone, though only 19 percent had a mobile phone that was capable of accessing the Internet. Match, supra note 17, at 20, 24 (using the term “remittance” to
Remittance recipients in Latin America may face similar constraints; one set of surveys showed that only about one-third of remittance recipients in Latin America had bank accounts.26

These characteristics of remittance consumers, RTPs, and remittance products provide context for the remainder of this report. In particular, the transparency recommendations in Part II are shaped by the range of remittance consumers, providers, and products in the market. Consumers’ shopping patterns frame the analysis in Part III regarding the potential for using remittance histories in credit scores.

II. Transparency and disclosure of exchange rates in remittance transfers

This Part provides “recommendations on the manner in which maximum transparency and disclosure to consumers of exchange rates for remittance transfers . . . may be accomplished.”27

Exchange rates are one of the key factors that consumers consider in choosing RTPs or remittance products. As a result, information about exchange rates has the potential to help remittance senders make well-informed choices about which services best meet their needs, and to facilitate competition among RTPs.

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27 The Dodd-Frank Act Section 1073(e) requires “a report to the President, Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Financial Services of the House of Representatives regarding—(1) the manner in which the remittance history of a consumer could be used to enhance the credit score of the consumer; (2) the current legal and business model barriers and impediments that impede the use of the remittance history of the consumer to enhance the credit score of the consumer; and (3) recommendations on the manner in which maximum transparency and disclosure to consumers of exchange rates for remittance transfers subject to this title and the amendments made by this title may be accomplished, whether or not such exchange rates are known at the time of origination or payment by the consumer for the remittance transfer, including disclosure to the sender of the actual exchange rate used and the amount of currency that the recipient of the remittance transfer received, using the values of the currency into which the funds were exchanged, as contained in sections 919(a)(2)(D) and 919(a)(3) of the Electronic Fund Transfer Act (as amended by this section).”
Any benefit for consumers of a particular exchange rate transparency measure will depend, however, on a number of elements. These include the role that exchange rates play in the overall prices that RTPs charge for transfers; the effect of other disclosure practices and requirements; the characteristics of exchange rates; and how consumers understand any communications about exchange rates.

**A. Exchange rates as a component of remittance transfer prices**

When a consumer submits funds to an RTP, the exchange rate applied to the transaction is one of three factors that determine how much money the recipient abroad receives. The other two factors are: (1) fees charged at the time of transfer; and (2) fees deducted from the amount sent after the time of transfer.28

The same three factors determine the price of the remittance transfer. Consider the situation in which a consumer is attempting to send a constant amount of local currency to a recipient. When fees increase, the price of that transfer will increase. And, if the amount of foreign currency that is equivalent to one U.S. dollar decreases, then the amount that a U.S. consumer will have to pay in U.S. dollars for the transfer will increase.

In calculating the prices of remittance transfers, researchers and other market experts focus on the exchange rate “spread”: the percentage difference between the “retail” exchange rate applied to a remittance transfer and some “wholesale” exchange rate. The foreign exchange cost to the consumer is calculated as the spread times the amount transferred (net of fees).

Though there are a variety of ways to measure the wholesale exchange rate, the concept of exchange rate spread is well-recognized in the remittance transfer industry.29 As they do with fees, RTPs may increase or decrease exchange rate spreads in order to maximize profit or attract consumers. RTPs report as revenue the money that they earn due to exchange rate spreads. Exchange rate spreads can also help protect RTPs in case of unexpected changes in currency markets. Though industry practice is not consistent, RTPs might also alert consumers to their pricing practices by disclosing the exchange spread they add to some wholesale exchange rate, such as the wholesale rate that the RTP receives or some reference rate.

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28 Exchange rates apply to all transactions received in currency other than U.S. dollars. Fees charged at the time of transfer are very common. Fees charged after the time of transfer, which can include fees charged for delivery or deducted at the destination, are less common. Taxes may be imposed on some remittance transfers sent from certain states or received in certain localities. Like per-transaction fees charged by RTPs, taxes also can affect the amount a recipient receives from, or the amount a sender pays for, a remittance transfer. This report will not, however, focus on taxes imposed on remittance transfers.

29 The World Bank, for example, calculates exchange rate spreads by comparing retail exchange rates to interbank exchange rates, which are the rates available to large financial institutions exchanging very large quantities of currency with each other. See Remittance Prices Worldwide: Making Markets More Transparent (online at remittanceprices.worldbank.org/Country-Corridors) (accessed June 27, 2011). By contrast, in calculating their revenues, RTPs generally measure exchange rate spreads by comparing their retail exchange rates to the rates at which they buy currency, which may be different from interbank rates.
Exchange rate spreads can be useful because they can indicate whether any particular transaction is cheap or expensive as compared to another transaction in the same currency or in another currency. Exchange rates themselves are less informative because, across currency pairs, they are measured on widely different scales. Furthermore, while RTPs can largely control spreads, many wholesale exchange rates fluctuate frequently in reaction to market conditions.

This report will use the term “total price” to mean the sum of fees charged for a remittance transfer, plus the foreign exchange cost, where the foreign exchange cost is the transfer amount, net of fees, multiplied by the exchange rate spread. Foreign exchange cost will be based on the interbank rate, which is the rate used by large financial institutions exchanging very large amounts of currency with each other. Unless otherwise specified, “exchange rate” will refer to the retail exchange rate, or the exchange rate applied to a specific transfer.

By way of example, consider an RTP that charges a $10 fee for all transfers to Mexico, and offers an exchange rate of 11.76 Mexican pesos per U.S. dollar. The interbank rate is 12.00 Mexican pesos per U.S. dollar, so the spread between that rate and the retail rate is 2 percent. If a consumer wanted to transfer $200 to Mexico, the total price would be $10 plus the foreign exchange cost: $4.00, or 2 percent times $200. In other words, the total price would be $14.

1. Total price and the impact of foreign exchange cost

Remittance transfer pricing can be complex. As mentioned above, RTPs may vary the exchange rate spreads and fees they charge based on a range of factors, including the specific sending and receiving locations, the size of the transfer, the speed of transfer, the method of payment, and the method of pickup. These pricing variations may reflect both competitive dynamics and actual differences in the costs that an RTP incurs to send transfers.

Based on information collected for representative transactions, the World Bank estimates that in early 2011, average total prices of $200 transfers from the United States to 24 countries ranged from 3 percent to 13 percent of the net transfer amount, depending on the destination country. For $500 transfers, the average total price ranged from 2 percent to 9 percent of the net transfer amount.

For these modest-sized transfers, the World Bank data show that foreign exchange costs tend to represent only a fraction of the total price. As shown in more detail in Appendix A, for $200 or $500 transfers to nearly all of the surveyed destinations, the average foreign exchange cost equaled between 0.5 percent and 2 percent of the transfer amount. To all but two countries, this average foreign exchange cost was less than half the average total price. For a consumer who sends $300 abroad every month, foreign exchange costs of this magnitude would amount to a total annual cost of between $18 (0.5 percent spread) and $72 (2 percent spread).

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30 Though interbank rates are not available to all buyers of currency, or for smaller transactions (even on a “wholesale” basis), they are often used as a reference for other exchange rates.

31 The calculation of the exchange rate spread in this example is (12.00 – 11.76)/12.00.

However, foreign exchange costs may be more important for larger transactions. An RTP’s fixed fees often represent a smaller percentage of the transfer amount for larger transfers. But foreign exchange costs – as a percentage of the transfer amount – tend to stay more constant over different transaction sizes.\(^{33}\) Furthermore, as described below, foreign exchange costs can be – and have historically been – larger.

2. Remittance transfer price trends and drivers

Over the last decade, the prices for transfers from the United States to some popular destination countries have been declining. One researcher estimates that the average price of $200 transfers from the United States to various Latin American countries halved between 2001 and 2008, though it has since increased to 2007 levels.\(^{34}\) A similar trend has been observed in foreign exchange spreads. The data suggest that the exchange rate spreads for transfers from the United States to Latin America and the Caribbean dropped from the range of 2 percent to 3.5 percent in 2001 to the range of 0.5 percent to 1 percent in 2004.\(^{35}\) Though their impact is not known, a number of drivers may have been responsible for these declines.

Some industry observers have attributed the price declines to an increase in the number of providers competing in the market; one study shows that the average price of transfers from the United States to certain countries in Latin America is inversely correlated with the number of transfer providers serving the particular country.\(^{36}\)

Pricing practices may also have been affected by disclosure requirements, a number of which were introduced over the last decade. Prior to 2000, only a few states required money transmitters to provide receipts stating their fees and/or exchange rates.\(^{37}\) During the 2000s, several more states introduced similar requirements.\(^{38}\) Also, in the early 2000s, several class action lawsuits against large

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money transmitters resulted in settlement agreements requiring, among other things, that certain companies make exchange rate estimates available by phone and disclose that exchange rate spreads may be a source of revenue.  

Similarly, the publication of comparative price information might have helped stimulate price-based competition that, in turn, could have led to price reductions. In 1998, the Mexican government began publishing company-by-company prices for transfers from the United States to Mexico; the government’s website now tracks the prices charged by certain companies for transfers from nine cities in the United States. In 2008, the World Bank’s remittance price database was launched. The World Bank also recently joined with the Inter-American Development Bank and a regional association of central banks to track and publish prices of remittance transfers from the United States to Central America.

RTPs may also have reduced their prices in reaction to declines in their costs of doing business. The World Bank attributed recent price declines in certain popular remittance markets, in part, to the industry’s growing use of Internet technology to exchange messages and settle funds. In coming years, emerging remittance transfer products could lead to further price declines, by reducing the need for – and costs associated with – retail agents. For money transmitters that rely on cash-to-cash transactions, commissions paid to sending and disbursing agents represent a substantial portion of operating costs. Additional costs are associated with recruiting, monitoring, and managing agent relationships. Internet- and phone-based transfer products have the potential to reduce or eliminate the need for sending and/or disbursing agent costs. It is possible that any related cost savings will be passed on to consumers. However, it is not yet clear whether market trends will bear this out, and these new products may incur operating expenses that cash-to-cash products do not. Furthermore, it is not yet clear whether and how fast consumers will adopt emerging remittance transfer products. As discussed above, access to information technology and payment instruments other than cash may pose a challenge for some remittance senders and/or their designated recipients.

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42 See Envia, Centro America, About Us (online at www.enviacentroamerica.org/english/httpdocs/aboutus.cfm) (accessed June 20, 2011).


44 In a survey of money transmitters other than the two largest global companies, companies reported, on average, that for a $300 transfers, they paid $5.91 in commission to the sending agent and $3.23 in commission to the disbursing agent. Commissions were frequently mentioned by firms as their largest expense. Andreassen, supra note 8, at 53-54.
B. Current disclosure practices and legal requirements

In the current market, a number of RTPs disclose to consumers the exchange rates they use and the fees they charge. In some cases, disclosures may be simply a matter of business practice.\(^{45}\) In other cases, states require money transmitters to make certain fee and/or exchange rate disclosures.\(^{46}\) For some account-based electronic fund transfers, the Electronic Fund Transfer Act (EFTA) has also required certain disclosures of fees and charges.\(^{47}\)

The Dodd-Frank Act expands on existing law and creates new federal standards regarding the disclosure of exchange rates in remittance transfers. Through the addition of a new Section 919 to the EFTA, the Dodd-Frank Act requires RTPs to provide remittance senders with disclosures at the time that they request remittance transfers, and at the time of payment. Those disclosures are to include the exchange rate used, as well as all fees charged, and the amount of currency to be received by the recipient (stated in the currency in which it is received).\(^{48}\) Under the Dodd-Frank Act’s remittance transfer provisions, regulations may also be prescribed to require RTPs to post and update notices that show the amount of currency that would be received by designated recipients for “model” transfers of one or more amounts.\(^{49}\)

In two circumstances, the Dodd-Frank Act’s amendments to the EFTA allow an RTP to provide, at the time of transfer, a “reasonably accurate estimate” of the amount of currency to be received (as opposed to disclosing a firm figure). First, under an exception that expires five years from the Dodd-Frank Act’s enactment date (unless extended), the amendments permit insured depository institutions to provide estimates for account-based transfers in instances when the RTPs are “unable to know, for reasons beyond [their] control, the amount of currency that will be made available to the designated recipient.”\(^{50}\) Second, under a permanent provision, the amendments authorize exception rules that would permit all RTPs to estimate the amount to be received, when it is determined that the destination country does not legally allow, or the method by which transactions are made in that country does not allow, RTPs to know the amount of currency that will be received.\(^{51}\)

The Dodd-Frank Act’s disclosure requirements are generally more extensive than those required by either the class action settlements or the pre-existing state statutes and regulations. Many of those state requirements are focused on post-transaction receipts and the fees charged, not pre-transaction disclosures or the amount received. Furthermore, the Dodd-Frank Act expands EFTA’s disclosure requirements, and broadens its scope to include many transactions that were previously excluded.

\(^{45}\) See generally Andreassen, supra note 3, at 28.
\(^{46}\) See note 39.
\(^{47}\) See 12 C.F.R §§ 205.3(b), 205.3(c)(3), 205.7, 205.8, 205.9. EFTA is codified at 15 U.S.C. § 1693 et seq.
\(^{48}\) Dodd Frank Act § 1073(a); 15 U.S.C. § 1693o-1(a)(2)(A), (B).
\(^{49}\) Dodd Frank Act § 1073(a); 15 U.S.C. § 1693o-1(a)(6)(A).
\(^{50}\) Dodd Frank Act § 1073(a); 15 U.S.C. § 1693o-1(a)(4)(A).
\(^{51}\) Dodd Frank Act § 1073(a); 15 U.S.C. § 1693o-1(c).
such as cash-based transfers and consumer wire transfers that meet the statutory definition of remittance transfer.\footnote{See generally Board Proposed Rules, supra note 14, at 29,907.}

Until July 21, 2011, the Federal Reserve Board had authority to implement the Dodd-Frank Act’s amendments to EFTA regarding remittance transfers.\footnote{See generally Dodd-Frank Act §§ 1011, 1061, 1062, 1084, 1100H; Bureau of Consumer Financial Protection, Designated Transfer Date, 75 Fed. Reg. 57,252 (Sept. 20, 2010); 15 U.S.C. § 1693b(a).} On May 23, 2011, the Federal Reserve Board proposed rules to implement the new disclosure requirements, but the proposed rules would not require the posting and updating of model disclosure notices.\footnote{See generally Board Proposed Rules, supra note 14.}

On July 21, 2011, the date of this report, the rule-writing authority of the Federal Reserve Board for these provisions transferred to the CFPB, which is now responsible for issuance of the final EFTA remittance transfer rules.\footnote{Dodd-Frank Act §§ 1011, 1061, 1062, 1084, 1100H; Bureau of Consumer Financial Protection, Designated Transfer Date, 75 Fed. Reg. 57,252 (Sept. 20, 2010).} The deadline for comments on the Federal Reserve Board’s proposed rules is July 22, 2011.\footnote{Board Proposed Rules, at 29,902.}

C. Key characteristics of exchange rates

To be most useful to consumers, transparency measures and disclosures regarding exchange rates will help a consumer understand not only the applicable rates but also their impact. An accurate measure of an exchange rate’s impact requires attention to two unique characteristics of exchange rates and remittance prices.

1. Exchange rates alone provide incomplete information

Exchange rates alone do not determine how much money a remittance transfer recipient receives, or the total price paid for a transfer. Each of those figures results from the combined effect of the exchange rate and any fees charged. Understanding this combined effect can require several steps of arithmetic.

There are at least two methods for measuring the combined effect of exchange rates and fees. The Dodd-Frank Act’s remittance disclosure requirements focus on one method: calculating the total amount of currency received by a remittance recipient. Subject to two exceptions, it requires that disclosures state the amount that the designated recipient will receive, in the currency in which the funds will be received. A similar framework applies under the two exceptions to the disclosure requirements: When exact figures cannot be known at the time of transaction, the statute requires RTPs to estimate the amount to be received.
Under this method, to calculate the amount received, one could start with the amount of funds submitted by a consumer, subtracting any fees charged in U.S. dollars, multiplying the remainder by the exchange rate, and subtracting any fees charged in local currency.

But the World Bank’s remittance price database relies on an alternative measure of the combined effect: the total price for transferring a set amount of money, net of fees. To understand the total price paid, one could calculate the foreign exchange cost, and then sum that cost with all the fees charged (expressed in the same currency).\(^{57}\)

Under either method, when RTPs charge both fees and foreign exchange costs, the exchange rate alone cannot inform the consumer as to which RTP offers the best value.

Table 1 below relies on the Dodd-Frank Act’s methodology for describing the combined effect of exchange rates and fees. It describes three hypothetical examples in which a consumer submits funds to an RTP. For the sake of comparison, in each example the total amount of funds (including both the amount transferred and the fee) paid to the RTP is the same: $200. In each case, a fee is subtracted from the $200, and the remainder is transferred to Mexico, where it is received in Mexican pesos. In this example, RTP A offers the lowest fee. RTP B offers the best exchange rate (and the lowest exchange rate spread). But, due to the joint effect of exchange rates and fees, RTP C offers the consumer the highest amount of Mexican pesos received for a total payment of $200 to the RTP.

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Table 1: Hypothetical comparison of three RTPs’ pricing of a transfer to Mexico

<table>
<thead>
<tr>
<th></th>
<th>RTP A</th>
<th>RTP B</th>
<th>RTP C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transfer amount</strong></td>
<td>US$194</td>
<td>US$191</td>
<td>US$192</td>
</tr>
<tr>
<td><strong>Transfer fee</strong></td>
<td>US$6</td>
<td>US$9</td>
<td>US$8</td>
</tr>
<tr>
<td><strong>Total funds submitted</strong></td>
<td>US$200</td>
<td>US$200</td>
<td>US$200</td>
</tr>
<tr>
<td><strong>Interbank exchange rate</strong></td>
<td>12.00</td>
<td>12.00</td>
<td>12.00</td>
</tr>
<tr>
<td><strong>Exchange rate spread</strong></td>
<td>2.1%</td>
<td>0.4%</td>
<td>0.8%</td>
</tr>
<tr>
<td>(§ difference between interbank rate and exchange rate applied)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Exchange rate applied to transaction (Mexican pesos/1 U.S. dollar)</strong></td>
<td>11.75</td>
<td>11.95</td>
<td>11.90</td>
</tr>
<tr>
<td><strong>Pesos received</strong></td>
<td>2,279.50 MXN</td>
<td>2,282.45 MXN</td>
<td>2,284.80 MXN</td>
</tr>
</tbody>
</table>

2. Because of how exchange rates are set, direct comparisons are difficult

Many wholesale exchange rates are set largely through currency markets in which rates can fluctuate frequently throughout the day, similarly to the prices of heavily traded stocks or bonds.58 To adapt to market changes, some RTPs may allow the exchange rates that they apply to transfers to fluctuate with the market on a real-time basis; in other cases, RTPs may update their exchange rates several times a day or once a day. As a result, consumers who collect comparative fee and exchange rate information during the course of several hours or one day may be able to determine, reasonably well, which RTP is providing the best deal at a particular moment. But for consumers who cannot collect comparative information from a variety of RTPs at generally similar times, direct price

58 Some foreign exchange rates are set by monetary authorities.
comparisons are more challenging. Consider a consumer seeking price quotations from two RTPs on different days. By the time the consumer reaches the second RTP to collect a price quote, the first RTP’s prices may have changed, due to fluctuations in the exchange rate. The consumer may have difficulty determining which RTP provides the best deal at either time.

Consumers seeking to compare RTPs’ offerings may face additional challenges due to the complexity of RTPs’ pricing models. As discussed above, RTPs may vary the prices they charge based on a number of criteria. To compare two RTPs accurately, a consumer may need to collect information related to identical transactions.

D. How consumers understand financial information

The effectiveness of any disclosures and other transparency measures depends on how consumers understand and use available information. Research on consumers’ use of other types of financial information shows the following:

1. Design is important

Consumers’ understanding of financial disclosures can depend on their design, such as the use of headings and white space, delineation between primary and secondary information, and logical grouping of concepts and figures. But there is no specific formula for designing a form to maximize consumer understanding. For example, researchers found that a tabular format was effective in communicating mortgage terms but was less effective than simple sentences in communicating about overdraft fees.

2. A significant number of consumers have limited math skills

Almost 25 percent of adults in the United States have only a “below basic” level of quantitative literacy: in other words, they can perform “simple quantitative operations (primarily addition) when the mathematical information is very concrete and familiar.” Consumers with this level of skill may not understand disclosures that require them to perform more complicated arithmetic in order to understand the relevant information.

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3. Disclosures may not be sufficient

Consumers do not always base their decisions on all of the financial information that is available to them. Researchers have found that consumers may rely on shortcuts, rather than evaluating all the information provided to them; only trust information provided from certain sources; choose to not shop around for prices, even when a large amount of money is at stake; or underestimate the extent to which the small costs associated with one transaction may add up over time.  

Yet, while some consumers may misunderstand well-designed exchange rate disclosures, these consumers may nevertheless benefit from disclosures or other transparency measures. For example, consumers who do understand disclosures may inform other consumers about exchange rates and their impact. Or, if a significant proportion of consumers understand exchange rate disclosures and are sensitive to them, RTPs may find it profitable to offer more favorable exchange rates to attract those customers. The lower foreign exchange costs that result may benefit all consumers, not just the ones making use of the disclosures.

E. Recommendations regarding transparency and disclosures of exchange rates

In coming months and years, consumers likely will have new ways to learn about exchange rates used in remittance transfers. The Dodd-Frank Act’s amendments to EFTA and the implementing regulations will likely change how and when some RTPs communicate with consumers about exchange rates. Internet remittance price databases may expand in scope and usage. And as RTPs


introduce new methods for sending money, they may develop complementary new methods for communicating with consumers about exchange rates and other elements of remittance prices.

Existing transparency measures, the Dodd-Frank Act, and any new disclosures or other transparency measures may benefit consumers if they enable consumers to make more informed decisions about remittance transfers, if they reduce any consumer confusion about the cost or value of remittance transfers, or if they enable the remittance transfer market to operate more competitively. But the extent, pace, and impact of the changes to come cannot be known. The impact of the Dodd-Frank Act’s new disclosure requirements will depend, for example, on the details of the final implementing rules, and RTPs’, agents’, and consumers’ reactions to the new requirements.

The CFPB therefore recommends that policymakers and other stakeholders learn from the implementation of the new Dodd-Frank Act requirements, existing state disclosure requirements, and other transparency measures in the United States. Policymakers and other stakeholders can also learn from the transparency measures used in other countries. These measures include Internet remittance price databases that exist for transfers sent to Mexico and Central America, and for transfers sent from France, Germany, Italy, the Netherlands, Norway, Australia, and New Zealand. The World Bank has suggested standards for such databases, and is tracking prices for transfers among a number of other countries. The implementation of Europe’s 2007 Payment Services Directive may also be instructive. Pursuant to that directive, European Union countries have adopted or will adopt laws requiring exchange rate disclosures for certain international money transfers. Other actions to implement international statements on transparency may provide additional lessons. “Transparency and consumer protection” is the first of five “General Principles for International Remittance Services” developed by an international task force and published by the Committee on Payment and Settlement Systems and the World Bank in 2007. In 2009, the Group of Eight industrialized nations (G8) set an objective for reducing remittance transfer prices, and identified “enhanced information” and “transparency” as key mechanisms for achieving that goal.


67 Id. at 6-12.


70 G8 Summit 2009, G8 Leaders Declaration: Responsible Leadership for A Sustainable Future, at ¶ 134 (2009) (online at www.g8italia2009.it/static/G8_Allegato/G8_Declaration_08_07_09_final%2c0.pdf). Like the General Principles, the
The CFPB also recommends that any new transparency measures be considered together with other mechanisms for increasing the competitiveness of the remittance transfer market, or promoting other consumer protection goals.

Finally, the CFPB recommends the following principles to maximize consumers’ ability to receive and use exchange rate information. This report does not provide detailed recommendations on policies to implement these principles because of the pending rulemaking to implement the Dodd-Frank Act’s new remittance disclosure requirements. Comments received on the proposed rules, as well as the impact of the final rules, will yield further insights on how to promote transparency regarding exchange rates.

1) **Disclosures to consumers about remittance transfers should be designed, tested, and used to maximize consumer comprehension.** As discussed above, consumers’ understanding of financial information can depend on the design of disclosure forms and consumers’ financial literacy, among other factors.

The EFTA, as amended by the Dodd-Frank Act, includes several provisions that reflect this principle. It requires that remittance transfer disclosures be made in the languages principally used by the RTP or its agents to advertise, solicit, or market at the office in question; the statute also mandates that information be disclosed “clearly and conspicuously.” Further, the Federal Reserve Board has proposed model forms and format standards, and has tested potential model disclosure forms with consumers.

In evaluating existing disclosures and other transparency measures, or considering new ones, policymakers and stakeholders should similarly focus on how consumers understand and use any information provided.

Education and outreach campaigns could further enhance consumers’ use and comprehension of disclosures and other exchange rate information. The Dodd-Frank Act requires the CFPB and other federal regulators to assist in the execution of a national financial literacy and education strategy as it relates to remittance transfers. Additional education and outreach efforts could be provided by a range of entities, including foreign governments – some of which already seek to educate emigrants who send money to their native countries.

2) **Exchange rate information should be communicated in a manner that facilitates consumers’ comparisons of remittance transfer offerings.** Because exchange rates help determine how much a remittance

G8 Declaration’s use of the word “remittances” appears to focus on person-to-person transfers, often from migrants to their native countries, regardless of whether those transfers are conducted electronically.

71 Dodd-Frank Act § 1073(a); 15 U.S.C. § 1693o-1(a)(3), (b).


73 Dodd Frank Act § 1073(c)(2); see generally 20 U.S.C. §§ 9703(f), (h).

74 See, e.g., Profeco, supra note 40 (Mexican government website educating Mexican migrants about sending money from the United States to Mexico); General Principles, supra note 13, at 32 (discussing pre-departure orientation program conducted for Filipino emigrants that addresses, among other things, topics related to remittance transfers).
recipient receives, and the price a sender pays, effective transparency measures may enable consumers to compare various providers and their offerings.

The Dodd-Frank Act’s remittance disclosure requirements have the potential to facilitate such comparison. Consumers may be able to compare providers based on the standard set of information that the Dodd-Frank Act requires for disclosures. If there is evidence that consumers can understand and use additional exchange rate-related information – such as comparative information about exchange rates, exchange rate spreads, or total price – policymakers and other stakeholders should consider further measures to facilitate consumers’ access to such information.

Consumers may be informed not only by RTPs’ disclosures, but also by third-party comparative pricing information. Existing Internet price databases, which provide company-by-company price data collected on or near a single date, represent one such model for providing comparative information. But because RTPs may vary their prices according to the sending and receiving locations, such databases might not practically be able to include all possible pricing variations.

As mentioned above, education campaigns could further help consumers access and understand comparative information relating to exchange rates.

To maximize consumer benefit, any such measures should reflect the variety of ways in which consumers may compare RTPs. Some consumers may search for the RTP that will provide them the best product for a single transaction; others may search for the RTP that will best suit their needs for repeated transactions. Furthermore, some consumers may be able to compare prices on a single day, while others may tend to collect price quotations over multiple days, making direct comparisons more difficult. In each circumstance, different types of exchange rate information may assist consumers in identifying the most appropriate providers.

The need for or potential impact of transparency measures beyond those required by the Dodd-Frank Act is not clear at this time, however. Research regarding the effects of the Dodd-Frank Act’s remittance disclosure requirements and existing transparency measures could be instructive.

3) **Disclosures about exchange rates should be adaptable to the growing variety of channels that consumers use to initiate remittance transfers.** As discussed above, consumers are being offered an increasing number of means of initiating remittance transfers. To maximize transparency for all consumers, useful exchange rate information should be available to all consumers for all remittance transfers, regardless of the channel by which they are initiated.

The need for adaptability to multiple channels has informed the Federal Reserve Board’s proposed rules implementing the Dodd-Frank Act remittance requirements. For example, the Federal Reserve Board expressly sought comment on how its proposed disclosure format standards could be applied to transactions conducted via text message or mobile phone applications.\(^75\) Additionally, the Federal Reserve Board’s proposed comment notes that required disclosures can be printed on a variety of

\(^75\) Board Proposed Rules, supra note 14, at 29,915, 2916.
paper sizes, including standard register receipt paper, which is limited in size, and which may also have font and graphics limitations.

Any additional transparency measures should be implementable for remittance transfers initiated through both existing and emerging channels.

4) **When feasible, information about exchange rates should be coupled with an indication or estimate of the combined effects of fees and the exchange rate.** An exchange rate alone usually does not determine the amount that a recipient receives or the price of a remittance transfer.

As described above, there is more than one method for calculating the combined effect of fees and the exchange rate. The Dodd-Frank Act focuses on informing consumers of the amount received by recipients. By contrast, the World Bank’s remittance price database focuses on the total price of a remittance transfer.

In evaluating the need for other disclosures to consumers about exchange rates, policymakers and other stakeholders can learn from the implementation of the Dodd-Frank Act disclosure requirements, as well as other transparency measures, and evaluate the extent to which different combined effect messages – including any estimates – may improve consumers’ ability to learn about exchange rates and their effects, and thereby make informed decisions.

### III. The potential for remittance histories to enhance credit scores

This Part discusses “(1) the manner in which the remittance history of a consumer could be used to enhance the credit score of the consumer” and “(2) the current legal and business model barriers and impediments that impede the use of the remittance history of the consumer to enhance the credit score of the consumer.”

A credit score is a numerical summary of the relative credit risk that a consumer poses, based on the information in the consumer’s credit file. Credit risk can mean different things in different contexts, but typically means the relative likelihood that a consumer will default on a debt. A higher score suggests that a consumer poses a lower credit risk, and vice versa. A lack of a credit score or a low credit score can limit a consumer’s access to credit or other products, or raise the price a consumer might pay for those products.

The issues addressed in this Part may well reflect a hypothesis that the credit files of many remittance senders contain insufficient information to permit the calculation of credit scores or that the credit scores generated from those files may overestimate the credit risk that these consumers pose. There is limited direct information available regarding the extent to which this hypothesis is

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76 Id. at 29,910, 29,955.
77 Dodd-Frank Act § 1073(e).
78 A fuller discussion of credit scores is included in the CFPB’s July 19, 2011 report to Congress titled “The Impact of Differences Between Consumer- and Creditor-Purchased Credit Scores.”
true, however. Furthermore, it is not known whether and how adding remittance histories to remittance senders’ credit files will affect the credit scores of those consumers.

This Part begins by providing background on credit reporting and credit scores. It then discusses why remittance senders might benefit from use of their remittance histories in credit scores, evaluates the potential predictiveness of remittance data, and describes an ongoing research project of the CFPB to assess the potential for using remittance history as a predictive factor in credit scores. Finally, this Part describes potential business and legal barriers to the introduction of remittance data into credit reports and credit scores.

In the context of this discussion, the phrase used in the Dodd-Frank Act – “to enhance the credit score of the consumer” – could mean either to increase that score, or to make it a more accurate measure of credit risk. These two meanings are not necessarily in conflict. For consumers for whom credit scores overestimate credit risk, or for whom there is no credit score, making the score more accurate would mean increasing the score, or creating one for the first time. In either case, the consumer would benefit. In other cases, however, making a score more accurate may mean decreasing it. To provide clarity, the analysis below will refer, as appropriate, to the improved accuracy of credit scores, and to increases or improvements in the credit score of a consumer.

A. Background on credit reporting and credit scores

Credit scores are primarily distributed by companies called consumer reporting agencies (CRAs) that gather, organize, standardize and disseminate information that relates to consumers’ credit risk. There are three nationwide CRAs; this report will use the term “CRAs” to refer to these three firms. For purposes of this report, “credit scores” will refer to scores derived primarily from a consumer’s credit file at these CRAs.

Based on the information they gather, the CRAs compile files regarding individual consumers. Mostly, these files contain information about credit accounts (also referred to as “trade lines”), items sent for collection, and public records, such as judgments and bankruptcies. CRAs also track and record requests that lenders or others make for a consumer’s file, called “inquiries.”

From these files, CRAs generate consumer-specific reports commonly known as “credit reports.” The CRAs generate credit scores by applying mathematical algorithms, or “scoring models,” to the information in a consumer’s credit report. Some users of credit scores, such as large credit card issuers, obtain consumers’ credit data from the CRAs and generate and use proprietary credit scores using their own scoring models.

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81 Records of requests from the consumer for copies of his or her report, as well as requests by lenders in connection with “firm offers” of credit, are typically not reflected in credit reports or scores that are provided to creditors and other users.
1. Key participants in the credit reporting and scoring market

To help explain how remittance history might be used in the process of generating a credit score, it is useful to review the roles typically played by various entities in the process of creating credit files, formulating credit scores, distributing credit reports and scores, and using these reports and scores to make credit and other decisions.

1. **Data furnishers** are the sources of information contained in credit files. They are most commonly creditors that have extended credit to consumers; creditors report regularly to CRAs on their credit arrangements with consumers, and consumers’ behavior under those arrangements, including whether consumers are meeting their repayment obligations. Other data furnishers to CRAs include collection agencies and specialized companies that provide public record information, such as information about judgments, bankruptcies, tax liens, and criminal convictions.

2. **CRAs** receive data from furnishers and add them to consumer files for resale in the form of credit reports to users (and file disclosures to consumers).

3. **Score developers** are specialized entities that use statistical modeling to develop credit scoring algorithms that use the information contained in credit files to predict a consumer’s credit risk relative to other consumers. In general, a score developer earns a licensing fee whenever a score using its scoring algorithm is created and distributed by a CRA. The CRAs also offer credit scores generated from models developed by their own internal score development operations.

4. **Users** of credit reports and scores, such as lenders, purchase credit reports and scores from one or more CRAs. They purchase these reports and scores to identify prospective borrowers, to make lending decisions, and to manage existing consumer credit accounts and other relationships.

It is useful to consider the incentives and interdependencies of the participants in this process. For example, lenders have incentives to furnish consumer data, because (1) they rely on credit reports containing information on as many of a consumer’s obligations as possible (so they can assess risk as accurately as possible); and (2) reporting gives consumers another incentive to pay their debts. The CRAs, in turn, allow score developers access to their data and distribute scores to users because credit scores make the CRAs’ credit information more valuable to users. These interdependencies and the challenges that they pose are discussed further in Section E below.

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82 There are also other users of credit reports besides lenders, and some of these users employ scoring models. Employers and landlords use credit report information when making hiring and rental decisions, and automobile and homeowners insurance companies use credit-based insurance scores in underwriting and rating, except where prohibited by state law. While these are important uses of credit reports and scores that have serious implications for consumers, they are beyond the scope of this report.
2. Information used in credit scores

Whether developed by independent score developers, modelers at CRAs, or lenders, credit scoring models factor in various types of information from consumers’ credit files. The primary factors scoring models use to compute scores often include:83

- Payment history, including late payments and collection items;
- Balances, available credit, and utilization (the percentage of existing credit lines already borrowed);
- Negative public records such as (bankruptcies, judgments, and liens, etc.);
- Length of the credit history and the mix of credit types; and
- Evidence of taking on new debt, such as new accounts or inquiries.

In this framework, consumers who have only recently begun using mainstream credit – loans or other credit accounts reported to a CRA for inclusion in the consumer's credit file – will tend to have lower scores than consumers who have been using such credit longer, provided that the consumers with the longer credit histories have paid their debts as agreed and have not incurred excessive debt. Similarly, if a consumer does not use mainstream credit products, the consumer may have little or no credit history. This phenomenon is referred to as having a “thin file.” Because scoring models require certain minimum amounts of data, consumers with thin files may not be “scorable,” meaning that credit scoring models may not generate any credit score at all for these consumers.

An estimated 35 million to 54 million adult consumers in the United States have no credit history or credit files that are too thin to be scored.84 The impact of this state of affairs can be significant. Absent a credit score, many lenders are unwilling to extend credit to a consumer, or will do so only at a relatively high cost and on restricted terms, such as a lower credit limit. In other words, thin-file consumers’ ability to obtain credit is more uncertain, and the cost of credit they are able to obtain is likely to be higher than that of consumers with more extensive credit histories.


3. Alternative or supplemental information in credit reporting and scoring

To address the issue of thin credit files, in the late 1990s, an assortment of businesses, policymakers, and consumer advocates began to explore what could be done to obtain more reliable indicators of the credit risk of thin-file consumers to enable lenders more easily to discern such consumers’ credit risk.

A number of these efforts have focused on two types of payment histories that could be analogized to loan repayments: rental housing payments, and telephone and utility bill payments. Like the trade line data on which CRAs have traditionally relied, rent, telephone, and utility payments are made regularly and pursuant to contractual obligations. Moreover, in each instance, as with a loan, the consumer’s payment is not guaranteed. The service provider directly takes on credit risk by allowing the consumer to pay in arrears, or by assuming a similar risk of loss in entering the contract, even though payment may be received prior to the provision of a product or service.

A 2006 study found that individuals’ histories of paying bills for utilities and mobile phone and other telephone services could serve as a useful means of predicting their likelihood of making loan repayments. In other words, these bill payments had “predictive power.” The study found that adding bill payment information to the data used to generate credit scores greatly reduced the percentage of consumers whose credit reports could not be scored. The new data made a majority of thin-file consumers scorable; in other words, addition of the data made these consumers’ credit risks assessable by lenders who relied on credit scores. As a result, the researchers urged that such recurring bill payments be used to supplement the credit files that CRAs generally use in calculating credit scores.

Rental history data also may prove useful in predicting credit risk. In 2010, Experian, one of the three nationwide CRAs, acquired an early stage company called RentBureau after assessing the credit-predictiveness of the acquired company’s database of rental payment history collected from large rental property managers. Experian asserts that of the 87 percent of customers in its RentBureau database who lacked credit scores based on their existing credit files, a majority became scorable when rental history data was added to their existing credit files and used in a scoring model.

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86 Id. at 19.

87 Id. at 19-21. Just adding utility data reduced the share of credit reports that could not be scored, with the particular scoring model used in the study, from 12 percent to 2 percent. Similarly, just adding telephone bill payment data reduced the share that could not be scored from 17 percent to 1 percent. Different samples were used to evaluate the impact of utility and telephone payment data, which is why 12 percent of reports were initially unscorable in the study of utility data, and 17 percent were initially unscorable in the study of telephone data.

88 See, e.g., Michael Turner et al., New to Credit from Alternative Data, Policy and Economic Research Council (Mar. 2009) (online at perc.net/files/New_to_Credit_from_Alternative_Data_0.pdf).

89 Analysis provided to CFPB by Experian, June 14, 2011 (hereinafter “Experian analysis”).
that incorporated these data.\(^{90}\) Moreover, adding rental data increased the credit scores of a significant number of renters who already could receive credit scores based on the information in their existing credit files.\(^{91}\) Experian has not disclosed how many renters would have seen the scores relating to them decline.

More research could better establish whether factoring these new sources of predictive data into credit scores has the potential to enable lenders to assess more accurately the credit risks posed by some consumers who otherwise have little or no credit history. The incorporation of new data may allow these consumers to access credit, or credit terms, that they may not have been able to obtain previously. However, new sources of data used to improve the predictiveness of credit scores – like traditional credit report data – may not help all consumers: They may cause some consumers’ credit scores to decline.\(^{92}\)

Analysis planned by CFPB may provide further information as to whether another new source of data – remittance histories – could similarly help predict loan repayments, be used in credit scores, and thus increase some remittance senders’ access to credit. This planned research is discussed below in Section D.

At the same time, it is important to note that market adoption of credit reports and credit scores that incorporate rental and bill payment data has been slow. Widespread reporting of consumers’ telephone and bill payment histories to any of the CRAs may face state and federal utility and telecommunications regulations that limit how these data can be used.\(^{93}\) In the case of rental data, only a minority of housing renters are likely to find their rental payment histories reflected in their credit reports and scores in the near term. This is because a majority of rental units exist in properties of 10 units or less, and it is difficult for a CRA to collect information reliably from such small businesses.\(^{94}\)

Market participants that seek to change credit reports and credit scores to include remittance histories may face challenges similar to those encountered in the use of rental and bill payment histories. The principal business and legal barriers are discussed in Sections E and F, below.

### B. Remittance transfer senders’ potential to benefit from alternative credit data

Little information is available about remittance transfer senders overall. But as noted above,

\(^{90}\) Id.

\(^{91}\) Jennifer Tescher, A Big Score for Alternative Data, American Banker (Feb. 24, 2011) (hereinafter “A Big Score for Alternative Data”).


\(^{93}\) Information Policy Institute, Giving Underserved Consumers Better Access to the Credit System: The Promise of Non-Traditional Data, at 20 (July 2005) (online at perc.net/files/downloads/nontrad.pdf).

information about personal transfers shows that foreign-born individuals comprise the majority of U.S. consumers who send them.

Compared to other groups, these foreign-born consumers may benefit disproportionately from the inclusion of supplemental data in credit reports and credit scores. The available evidence, though limited, suggests that these consumers or some subset of these consumers are more likely than others to have thin files; may receive credit scores that overstate their credit risk; and have fewer opportunities than other consumers to obtain credit, due to their limited engagement with depository institutions that might offer credit opportunities.

For example, one study based on the credit files of a sample of 3,000 individuals sending money to Latin America through a money transmitter found that only 22 percent had credit scores.95 Similarly, a recent report by the Federal Reserve Board on credit reports and credit scoring found that certain recent immigrants had credit histories that were similar to younger native-born consumers.96 The recent immigrants were less likely to become seriously delinquent on their debts than their credit scores would indicate, suggesting that the lack of a long or rich credit history was leading to a lower credit score than one that would accurately reflect these consumers’ actual credit risk.

There are two reasons why foreign-born consumers may be more likely than others to have no or low credit scores.

First, on average, foreign-born consumers are less integrated into the mainstream credit system than other U.S. consumers. A survey of natives of Latin America who send personal transfers from the United States found, for example, that only 25 percent had credit cards, as compared to the 72 percent of consumers nationwide who have credit cards.97 Similar disparities exist in the use of bank accounts – which do not directly affect credit scores, but indicate access to other mainstream credit products that may do so. Fourteen percent of households headed by a foreign-born individual do not have bank accounts, as compared to 6.7 percent for other households. For households headed by foreign-born individuals who are not U.S. citizens, the rate is much higher: 21.9 percent.98

Second, foreign-born consumers may have limited credit histories in the United States due simply to the length of time they have had to borrow money in the United States, and the fact that any


96 Federal Reserve 2007 FACTA Report, supra note 83, at S-2, S-4. The Federal Reserve Board researchers did not have direct information on the date on which the foreign-born consumers had entered the United States. “Recent immigrants” were defined as individuals who were not born in the United States, were over 30 years old, and had applied for a Social Security card for the first time within the last ten years. This approach was used to identify consumers who had likely entered the United States as adults within the last 10 years.


98 Federal Deposit Insurance Corporation, National Survey of Unbanked and Underbanked Households, at 48 (Dec. 2009) (online at www.fdic.gov/householdsurvey/full_report.pdf). The head of household, in this context, is the individual who owns or rents the home. Id. at 10 n.5.
borrowing history from outside the United States will not appear in credit reports.

Given the potential of foreign-born consumers to benefit from supplemental data, some have advocated that remittance data, like utility and rental payment data, be used in generating credit scores. If predictive of credit risk, remittance data might benefit consumers whose existing credit histories render them “unscorable,” and, in some cases, might raise the scores of remittance senders whose relative lack of credit history causes their scores to overstate the credit risk they present.

C. The potential for remittance histories to enhance credit scores

A pattern of remittance transfers may indicate that a consumer is able and willing to make regular payments to meet a financial obligation, such as a loan, but the existence of any such connection is unclear, and could vary depending on the consumer and the nature of the remittance transfers being sent.

Certain remittance histories could be analogous to the credit trade line data on which the CRAs have traditionally relied. Some remittance transfers may be used to pay creditors. Other transfers, similar to bill or rental payments in the United States, could require regular transactions, involve single payees, and satisfy contractual obligations for services that have already been provided. But without such payments being reported by the non-U.S. payees, it is not possible to know from payment histories alone whether remittance senders are meeting payment obligations.

Furthermore, many, if not most, remittance transfers are personal transfers, which likely are not payments for mortgages, utilities, rent, or other credit-like obligations. Such transfers are likely voluntary and are not made pursuant to a contract or other legal obligation; and they may be sent with varying frequencies and for varying reasons. Unlike paying a utility or a landlord, sending transfers for personal reasons on a regular basis does not necessarily indicate that any formal obligation has been met. Similarly, an interruption or reduction in the frequency of such remittance transfers does not necessarily demonstrate that a sender has failed to meet an obligation. 99

Given the differences between many remittance transfers and recurring payments for debts or other contractual obligations, it is difficult to know, without empirical analysis, what patterns or attributes of remittance history might be predictive of a sender’s credit risk.

D. Planned research regarding the potential for remittance histories to enhance credit scores

To better address the question of whether remittance histories can enhance credit scores, the CFPB will carry out empirical research regarding the potential value of such data in predicting a consumer’s loan repayments. The research will be based on information that the CFPB has obtained from a

99 An interruption in a consumer’s pattern of personal remittance transfers, for example, may not represent a late or missed payment; it may simply reflect the fact that the sender chose to use funds for another valid purpose, sent double the amount of funds the following month, or visited his or her home country and delivered funds in person. A change in remittance transfer pattern may also reflect changes in a recipient’s needs – for example, a family member’s reaching adulthood and no longer requiring support.
large RTP and a large CRA. The information includes remittance transfer data for a large number of consumers (the “remittance senders” or “remitter sample”), and credit history information and credit scores for both the remittance senders and a large random sample drawn from the general pool of credit files maintained by the CRA (the “control sample”). Appendix B provides a more detailed description of the database being assembled for the research project.

With these data, the CFPB will conduct several analyses to determine whether remittance histories can help predict consumers’ credit repayment behavior. The CFPB will also analyze whether the inclusion of remittance data may make it feasible to create credit scores for consumers for whom scores cannot be generated by standard credit scoring models using more traditional data.

A finding that consumers who send remittance transfers are more likely to repay their debts than other consumers with similar credit histories could suggest that adding remittance data to credit scores would tend to raise credit scores relating to remittance senders. If, conversely, remittance senders are more likely to become delinquent on their debts than other consumers with similar credit files, then reflecting remittance data would tend to lower those scores. The data may also reveal that different patterns of remittance sending are associated with better or worse performance on debts. Regardless of the overall conclusion, the result of reflecting remittance transfer data may well differ, consumer-to-consumer, in both direction and magnitude.

E. Business model barriers to the use of remittance histories to enhance credit scores

If remittance histories proved predictive of credit risk, their incorporation into consumer credit reports and credit scores would depend on adoption of new practices by participants in the business ecosystem of credit reporting and scoring. Some participants would need to make changes in their business practices, make significant investments, or take on new risks. These changes, investments, or risks could serve as business model barriers or impediments to the development and use of remittance-based scores. To overcome these barriers and impediments, each type of participant would likely need sufficient incentives in the form of new revenues and cost reductions, or new advantages vis-à-vis competitors.

The investments and operational changes required would most directly affect three key groups of participants that comprise the business ecosystem for credit information: (1) data furnishers; (2) CRAs and score developers; and (3) users.

For the purpose of the following discussion, it is assumed that remittance histories do have the potential to improve the predictiveness of credit scores, and that in so doing, such data may result in increases in some scores and decreases in others, depending on what the histories show and how they are used.

\[10^{0}\] The impact of remittance-based scores could also vary among groups of customers, and would – in practice – depend on how remittance-based scores were developed, what they were designed to predict, and how they were used in credit decisions.
1. Lenders’ incentives

If remittance histories were predictive, they would allow lenders to better understand and predict the credit risk presented by consumers who have sent remittance transfers. As a result, two opportunities could encourage lenders to begin using credit scores that incorporate remittance histories.

First, remittance-based credit scores could enable a lender to better assess the credit risks posed by some potential customers whom the lender would otherwise not have been able to evaluate, or whose risk the lender would otherwise have deemed unacceptable. Such change could enable the lender to make loans to a higher proportion of remittance senders who apply for credit than it would otherwise have made.

Second, early use of remittance-based credit scores could enable a lender to gain an advantage over its competitors for a period of time. For example, if such scores enabled the lender to ascertain that certain consumers were more or less risky than competitors’ less-informed assessments suggested, the lender might be able to make more appropriate decisions as to whether to offer loans to those consumers. If the remittance-based scores were higher than traditional credit scores with regard to some consumers, the lender could offer those consumers more attractive interest rates than its competitors would offer to a similar class of consumers.

Both of these opportunities might enable a lender to expand its business among some consumers who send remittance transfers, at least in the short run, until competitors began taking advantage of the same data source.

Importantly, a lender assessing whether to pursue these opportunities might weigh the potential benefits of doing so against those that might accrue from pursuing other opportunities. In this regard, it might find these opportunities to be less promising when compared to other opportunities that might result from the use of other supplemental or alternative credit information, such as rental or bill payment information.

The Census Bureau survey found that only about 5 percent of households in the United States (approximately six million) make personal transfers in a given year. The total population of remittance senders may be larger. But even if remittance histories had the potential to change credit scores, they would presumably do so only for some portion of the total remittance-sending population. Some remittance senders might remain unscorable. For other remittance senders who

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101 See Experian analysis, supra note 89.
102 Cf. A Big Score for Alternative Data, supra note 91. As reported by Experian, when adding rental data to the files of consumers who were previously unscorable, some experienced significant score increases. In a scoring system in which a score of 700 is entry-level prime for some lenders, addition of rental data meant that “[o]ne in three consumers whose score was in the lowest band, 501 to 600, moved up to at least the next level, between 601 and 700.” Id. While this is movement within the sub-prime range, it is still upward and would probably have a positive effect on the respective renters’ access to credit and the prices they would pay.
103 U.S. Census Bureau Analysis, supra note 3, at 18.
already have extensive credit files, the incorporation of remittance history might add little incremental predictiveness to credit scores regarding them.

By comparison, there are 37.7 million households making payments on rental housing nationwide,\textsuperscript{104} and a substantial majority of the 117.5 million households in the United States make one or more monthly utility or telecommunications payments.\textsuperscript{105} Given the larger market opportunities presented by these alternative data streams, lenders might choose to experiment with credit reports and scores that have been enhanced by these other data first before evaluating or field-testing credit underwriting using remittance history.\textsuperscript{106}

2. Changes and investments by lenders

Score developers and CRAs report that lenders do not automatically incorporate newly available consumer data or credit scores into their underwriting processes. Some large lenders typically test new data and scores against a sample of consumers from whom they are receiving credit applications or to whom they intend to make credit offers or solicitations. Such testing can involve substantial investments of time and cost. Considerations as to whether to test a new source of underwriting data or scoring algorithm include the size of the consumer market that any added predictive power could help to address, the likelihood that such data will be available on demand for use in automated underwriting systems and processes in the future, and the cost of purchasing the data or scores from the CRAs.

In deciding whether to test a new score, a lender is also likely to take into account such factors as how widespread use of the score is, whether the score comes from a source with which the lender has a prior relationship or experience, and the extent to which the score may require associated changes in underwriting practices.

Even if a new source of data and associated credit scores proved incrementally predictive for certain consumers, some lenders might look to secondary market participants to endorse loans that had been underwritten using the new scores (by agreeing to purchase such loans). Obtaining the necessary endorsement could require sharing test results with securitizers, ratings agencies, or loan investors, or persuading those market participants to undertake their own analyses or tests of such loans’ repayment and default characteristics.


\textsuperscript{106} \textit{Give Credit Where Credit is Due}, supra note 85. The authors assessed the potential for various data sets as possible predictive variables in credit scoring, including utility, telecommunications, rental, and remittance data. Remittance data were ranked lower than rental, utility, or telecommunications payment data on “coverage,” i.e., the percent of the credit-eligible population about whom information was available.
Similarly, lenders that depend heavily on secondary markets for funding might rely on the investors that purchase their loans to dictate whether certain underwriting criteria – including the use of certain alternative data streams and scores – are acceptable. For example, the government-sponsored entities (GSEs), Fannie Mae and Freddie Mac, publish underwriting criteria for mortgage loans they will buy, including which types of credit reports and scores may be used. These criteria are incorporated into the automated underwriting and loan origination software the GSEs license to lenders for use in originating mortgage loans.

An investor, in turn, might enjoy a new or expanded market opportunity as a result of using credit reports and scores incorporating remittance histories. For example, during the 2000s, both the GSEs evaluated – or planned loan pilots to test – various alternative underwriting techniques and criteria, including use of credit reports and scores that contained supplemental data.

### 3. Incentives for CRAs and score developers

CRAs earn sales revenues and score developers earn licensing fees when users, principally lenders, use their reports and scores in credit underwriting and other risk assessments. As a result, these companies’ willingness to add consumers’ remittance histories to credit reports or to incorporate such data into their scoring models would likely hinge on users’ interest in purchasing their products. More specifically, interviews with score developers and two of the nationwide CRAs indicate that their willingness to invest in and offer remittance-based products would be contingent on the extent to which remittance histories proved to be incrementally predictive of the credit risk of a significant group of consumers. To be an attractive prospect, the new data likely would need to add predictiveness about the credit risk presented by such consumers that is beyond that provided by other kinds of payment history data that might already be available and applicable to a larger proportion of consumers.

If, in fact, remittance histories proved useful in predicting credit risk for a significant number of consumers, the incentive for any one of the CRAs to incorporate this information into its credit files could be powerful. This is due to the fact that each of the CRA’s data are largely duplicative of the others’ data. Most lenders furnish loan performance information to all three companies, and the companies obtain their public records information from similar or identical sources. If, by incorporating a new type of data on an exclusive basis, a CRA could offer users even a modestly superior ability to assess a prospective borrower’s credit risk, the CRA could enjoy a substantial competitive advantage. Such an advantage could enable the company to charge higher prices for its services and/or capture a larger share of the market for supplying credit reports.

### 4. Changes and investments by CRAs and score developers

Significant investments on the part of CRAs and score developers would be required to evaluate a new source of data for its predictiveness, contract with sources to furnish it, add such data to consumer files, develop scores that incorporate the new data, and implement marketing and sales programs to convince lenders to use these new scores.

Four unique characteristics of remittance data, as collected and maintained by RTPs, might pose particularly high initial costs and start-up challenges. First, remittance histories exist in RTP transaction databases that are not automatically organized by consumer. Second, remittance histories
may not be readily related — if at all — to a specific payment obligation of the sender. Third, RTPs do not always need to capture accurate or comprehensive information regarding remittance senders’ identities. Fourth, the record of a single consumer’s remittance history may be split among several RTPs, not captured simply by one.

Data in CRA databases are normally furnished by creditors and others in the form of discrete consumer records. The CRAs require furnishers to provide these records in a standardized format, and they categorize data according to consumer names, addresses, phone numbers, dates of birth, and Social Security numbers or individual taxpayer identification numbers. Remittance transfers processed by RTPs may be recorded and organized in RTP databases on a significantly different basis — for example, by geography, date, and the particular retail location at which a transaction was initiated. Thus, a CRA or RTP might need to develop computer programs to convert the transaction data into individual consumer records that are usable by the CRA.

The fact that consumers’ remittance histories do not necessarily reflect ongoing payment obligations has been discussed above. This difference could also pose challenges to incorporating such histories into established scoring algorithms. Most scoring algorithms are calculated using credit file attributes that, in turn, are based on individual trade lines that characterize the status of a consumer’s relationship with a creditor. Trade line information in a credit file typically includes the amount of the credit line, the amount of the obligation outstanding, the period of time the credit relationship has been active, whether or not payments have been made on time, and whether or not the consumer is current with her or his obligation. The attributes of a consumer’s remittance history that may be most relevant to predicting credit risk are likely to be different from those of credit trade lines; discovering those attributes and reflecting them in a scoring model could require a large amount of research and analysis on the part of score developers.

Another problematic aspect of remittance histories is that information about senders’ identities is usually more limited and may be less accurate than what is ordinarily contained in a CRA’s credit file. For example, money transmitters are likely to record senders’ names and contact information, as a matter of business practice and legal compliance. Federal law provides that money transmitters must generally obtain senders’ names and addresses for transactions of $3,000 or more; for many such transactions, money transmitters are also required to record the senders’ Social Security numbers or other identification numbers, and verify the identities of senders who initiate transactions in-person. For the large number of transactions below the $3,000 threshold, money

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108 31 C.F.R. §§ 1010.410(e)(1) (regarding all “transmittals of funds” of $3,000 or more), (e)(2) (additional requirements for transactions made by consumers who are not established customers); see also 31 C.F.R. §§ 1010.312, 1022.312 (regarding certain physical transfers of currency). It is assumed that all money transmitters that are RTPs under EFTA Section 919 are also considered nonbank financial institutions and money services businesses under the relevant federal law, and vice versa, though there may be some exceptions. Similarly, it is assumed that all remittance transfers initiated by money transmitters are “transmittals of funds” as defined in 31 C.F.R. § 1010.100(ddd), though there may be some exceptions. Similar federal standards apply to some money transfers initiated by depository institutions. See 31 C.F.R. §1020.410(a). But for account- based transactions initiated at a depository institution, as a practical matter, identifying information is likely to be recorded with every transaction, and in most cases, should have been verified.
transmitters are also likely to record senders’ names and contact information for use in case of a transaction error, or to help identify transactions that violate federal restrictions on transfers from certain designated individuals.\textsuperscript{109} But for these smaller transfers, money transmitters might never verify senders’ names and contact information, or collect other personal identifiers that CRAs use, such as dates of birth, Social Security numbers, or individual taxpayer identification numbers. Furthermore, if provided on a handwritten form, any customer data received by a money transmitter may be entered inaccurately by a clerk. The likelihood of inconsistencies or inaccuracies is increased by the fact that some remittance senders wish to maintain some anonymity, so they may not consistently represent who they are.

The elevated possibility of inaccuracy in information about senders would likely present challenges for CRAs, who are directed by the Fair Credit Reporting Act (FCRA) to have “reasonable procedures” in place to assure maximum possible accuracy of the reports they provide.\textsuperscript{110} With the addition of remittance histories to credit files, the costs of screening furnishers and incoming data to prevent inaccuracies in credit reports may be high. Furthermore, consumer records that contain only names and addresses may be difficult to match with a CRA’s credit files. This could make using remittance histories a challenge; a CRA might not be able to match some remittance histories with any credit files at all, and would need to develop reasonable procedures to ensure that remittance histories were not placed in the credit file of the wrong consumer.

CRAs and score developers might also face challenges in collecting complete and accurate remittance histories for individual consumers. As described in Part I, remittance senders may form a relationship with a single RTP and make repeated and multiple transactions with that RTP. But other regular remittance senders may routinely or sporadically switch providers. To gather accurate remittance histories for these consumers would require collecting and combining data from multiple RTPs – all of whom could have different systems of recording and storing transaction data, as well as different practices relating to the furnishing of data to CRAs.

5. RTPs as data furnishers: Incentives and barriers

In the prevailing business ecosystem of credit reporting, most lenders that use credit reports and scores are also data furnishers. Each has a shared interest with other lenders that use credit reports to furnish customer information so that the CRAs’ credit files and credit reports capture as complete a picture as possible of borrowers’ credit histories.

Because remittance senders presenting cash or good funds do not generally pose any credit or other risks to RTPs, the RTPs do not need to assess these risks and are generally not users of credit


\textsuperscript{110} 15 U.S.C. § 1681e(b).
reports. Thus, RTPs would not have the same incentives that lenders have to report their customers’ transaction histories to one or more CRAs.

There are two primary challenges that an RTP might face if it were to report its consumers’ remittance histories to a CRA.

First, as an information furnisher to a CRA, the RTP would be required to establish reasonable policies and procedures designed to ensure that the furnished data (including information about consumers’ identities) were accurate. The FCRA prohibits furnishers from reporting information to a CRA if they “know[] or have reasonable cause to believe that the information is inaccurate.” Compliance with these requirements could involve significant costs.

Second, by reporting remittance histories to a CRA, whose credit files can be accessed by any company that is an authorized user of consumer reports, an RTP might risk alienating remittance senders who wish to maintain some level of anonymity. An RTP that was viewed as widely sharing information could be put at a disadvantage in competing for the business of certain categories of remittance senders.

To help address these challenges, an RTP might consider creating a program in which a remittance sender would have the option to report his or her remittance history to a CRA in order to “build credit.” This opt-in approach to reporting might enable the company to build loyalty among certain remittance senders without alienating other senders who wished to retain their anonymity. Such a program would have the further advantage of helping to ensure that reported information about customers who chose to have their transactions reported was accurate – the RTP could require consumers enrolling in the credit reporting program to provide positive identification and other relevant information. Some RTPs already have loyalty card programs that require one-time enrollments and are used to track members’ transaction histories.

An RTP might find also stronger incentives to participate in the development of remittance-based credit evaluations if it offered credit or credit-like products to its remittance customers directly. In this scenario, the RTP would only be acting on remittance histories it had created internally; no CRA would need to acquire or cleanse the data. As a provider of both loans and remittance services, the RTP might reap incremental revenue and profit. Further, there would be less risk of alienating customers who valued their anonymity. On the other hand, for money transmitters that rely on agent networks, the indirect relationship between the RTP and the remittance senders might complicate loan marketing, origination, and servicing. Depository institutions that serve as RTPs could more easily offer loans, but might face other challenges. Only a limited number of depository

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113 It is also possible that RTPs that report their customers’ remittance histories to a CRA would be providing an advantage to competitors who may be able to obtain credit reports on these customers, and use the reports to make marketing solicitations to such customers. The FCRA, however, establishes important limitations on the permissible uses of, and the circumstances under which persons may obtain, credit reports. See, e.g., 15 U.S.C. § 1681b.
institutions have chosen to offer remittance transfer services that compete for the large segment of remittance senders who use cash-based transfers.

In any case, under any scenario, the most critical business question for market participants will be the impact of remittance histories. The incentives for market participants to invest in remittance-based credit scores will be strongest if remittance data can be shown to significantly improve the accuracy of credit scores for a large number of consumers.

F. Legal barriers to the use of remittance histories to enhance credit scores

To develop and use remittance-based credit scores, market participants might also need to adjust their processes and systems to comply with federal laws and regulations that would be implicated. The costs of such compliance could deter adoption of the necessary new practices.114

1. Privacy and notification requirements

The Gramm-Leach-Bliley Act (GLBA) and the implementing regulations (Privacy Regulations) place various privacy protection obligations on an entity that qualifies as a “financial institution” under that law.115 The requirements of the GLBA and the Privacy Regulations do not prohibit financial institutions from disclosing remittance data to CRAs, but an RTP that is a “financial institution” must provide notices to consumers, under certain circumstances, in order to comply with these requirements.116

The requirements of the GLBA and the Privacy Regulations distinguish between a consumer who is a “customer” of a financial institution, that is, a consumer who has a customer relationship with the institution, and other consumers, such as those who only engage in isolated transactions with the institution.117

Under the GLBA and the Privacy Regulations, an RTP that is a financial institution is required, among other things, to provide an initial privacy notice and annual privacy notices to each “customer.”118 This requirement applies regardless of the RTP’s disclosure practices. However, if the

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114 State law, which is not discussed here, may impose additional requirements and deterrents.

115 15 U.S.C. §§ 6802-6809. These provisions have been implemented through regulations of the Federal Trade Commission (FTC) and several other federal agencies. See 15 U.S.C. § 6804(a)(1) (authorizing the FTC and other agencies to issue Privacy Regulations); see also 16 C.F.R. Pt. 313 (FTC Privacy Regulation).

116 The GLBA does not list the types of “financial institutions” subject to its coverage. The GLBA broadly defines the term “financial institution” to include, subject to limited exceptions, “any institution the business of which is engaging in financial activities as described in” section 4(k) of the Bank Holding Company Act of 1956 (12 U.S.C. § 1843(k)). See 15 U.S.C. § 6809(3). These activities include “transferring . . . money.” 12 U.S.C. § 1843(k)(4)(A); see also 16 C.F.R. § 313.3(k)(2)(vi) (FTC Privacy Regulation listing as an example of a financial institution a “business that regularly wires money to and from consumers”).

117 16 C.F.R. § § 313.3(h)-(i).

RTP decided to start disclosing nonpublic personal information (such as remittance data) to a nonaffiliated third party (such as a CRA), it might need to change its privacy notices to reflect the new type of disclosure. In addition, it is possible that, in order to furnish remittance histories to CRAs, an RTP might need to change its business processes in a manner that would result in having additional “customers” entitled to privacy notices.

With regard to all consumers, the GLBA also generally prohibits a covered RTP from disclosing nonpublic personal information to any nonaffiliated third party unless the institution first provides a privacy notice to the consumer covering such disclosure and a reasonable opportunity to prevent or opt out of the disclosure, and the consumer does not elect to opt out. However, the GLBA contains a number of exceptions to the notice and opt-out requirements, including for disclosures of nonpublic personal information to a CRA in accordance with the FCRA. Additionally, the GLBA notice and opt-out requirements do not restrict the disclosure of nonpublic personal information from a CRA’s credit report. Thus, in general, the GLBA and the Privacy Regulations would not limit a lender’s ability to receive remittance histories directly from a CRA – or a CRA’s ability to provide such data – when the information is included or reflected in a credit report or credit score.

The CRA exceptions to the GLBA’s opt-out requirements do not excuse a financial institution from providing initial and annual privacy notices to “customers.” Nevertheless, the GLBA privacy provisions should generally not operate as a bar to the use of remittance transfer data in credit reports or credit scores.

2. Credit reporting requirements

The CRAs, data furnishers, and users of credit reports also must comply with relevant provisions of the FCRA, which addresses, among other things, the accurate and fair reporting of credit information. The FCRA does not limit what kind of entity may furnish information to a CRA. But, an RTP or other entity that furnished remittance histories to a CRA would have to comply with FCRA requirements. Any CRAs that accepted remittance data and users of credit reports or scores reflecting such data would also have to ensure that they were in compliance with the FCRA.

The FCRA would prohibit an RTP from furnishing remittance data to a CRA if the RTP knew or had reasonable cause to believe the information was inaccurate. More broadly, an RTP would have

\[\text{Footnotes:}\]

119 | 16 C.F.R. § 313.8; see also 15 U.S.C. § 6803.
120 | 15 U.S.C. §§ 6802(a), (b); see also 16 C.F.R. § 313.4.
to institute reasonable policies and procedures designed to ensure the accuracy and integrity of the data it furnished to a CRA. Furthermore, an RTP that furnished data would be required to notify the CRA of any disputes regarding the completeness or accuracy of furnished data, investigate disputes about the data submitted to a CRA, and correct and report any errors in information brought to its attention. An RTP that furnished data to a CRA would also have to comply with requirements of the implementing regulations to the FCRA relating to conducting a reasonable investigation of a direct dispute by a customer.

Any CRAs that accepted remittance data would also have to ensure that they were in compliance with the FCRA in including that data in credit reports. In this regard, the FCRA requires the CRAs to follow reasonable procedures to ensure the maximum possible accuracy of the data in credit reports.

Like the GLBA requirements, the FCRA requirements could impose regulatory costs on an RTP seeking to furnish remittance data to a CRA. They might also pose a compliance challenge to RTPs and the CRAs, if, as discussed above, the accuracy of the data maintained by RTPs that links transactions to specific individuals is uncertain or known to be deficient.

3. Fair lending requirements

Any use of remittance-based credit scores would have to be in compliance with the Equal Credit Opportunity Act (ECOA). That statute prohibits discrimination against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, receipt of income from any public assistance program, or exercising in good faith a right under the Consumer Credit Protection Act. The ECOA could be implicated by remittance-based credit scores in two ways.

Using remittance histories in credit scores could increase the risk of lenders violating the ECOA by treating applicants differently based on their race, national origin, or one of the other prohibited bases. Although a credit score standing alone may not reveal whether a consumer is a remittance sender, a credit report could. Because a large number of remittance senders are foreign-born, a creditor reviewing the credit file of a remittance sender could presume the consumer is of a particular race or national origin and use that information to discriminate illegally. Lenders using

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130 16 C.F.R. § 660.4.
132 See Part III, Section E.
136 See note 4.
remittance-based scores might have to enhance their processes to ensure that staff understand and comply with the ECOA.

Lenders would also need to comply with the ECOA’s prohibition on certain practices that unintentionally discriminate against members of a protected class. If foreign-born consumers account for a substantial portion of remittance senders, the use of remittance-based credit scores in credit decisions could disproportionately and adversely impact consumers of certain races and national origins. The existence or extent of any such disparate impact cannot be known without further analysis regarding a particular creditor’s use of remittance information and its impact. But if such disparate impact existed, the creditor’s use of remittance-based credit scores would have to be justified by a legitimate business need that cannot reasonably be achieved by a less discriminatory alternative. As a result, in developing any systems to use remittance-based credit scores, lenders or other credit score users might incur costs to evaluate the business need for and impact of such scores.

To the extent that credit scores or credit reports containing remittance histories are used in other contexts, such as housing or employment, similar legal issues might arise under other anti-discrimination laws, such as the Fair Housing Act (regarding housing) or Title VII of the Civil Rights Act of 1964 (regarding employment).

IV. Conclusion

This report discusses how U.S. consumers who regularly send a portion of their earnings abroad might be better served by markets for two financial services: remittance transfers and credit. For these consumers, remittance transfers can be a vital link to family members and friends abroad who depend on their support. Affordable and accessible credit, in turn, can help remittance senders establish and improve their financial lives in the United States. Credit can enable the purchase of a vehicle to commute to a job, provide the means to study a trade, or allow a consumer to purchase a home or start a small business.

The remittance transfer market is changing. New channels and technologies are emerging for sending and receiving money, and for becoming informed about RTPs’ products and pricing. The disclosures required by the Dodd-Frank Act should provide consumers with additional tools for identifying the remittance transfer options that best meet their needs. Combined, these developments may foster increased transparency, which in turn could create a more competitive market. But the impact of these developments is not yet known. The lessons learned from existing

139 See generally 42 U.S.C. §§ 3604, 3605 (prohibiting discrimination in, among other things, the sale, rental, or financing of dwellings on the basis of race, color, national origin and other prohibited bases); 42 U.S.C. § 2000e-2(a) (prohibiting failing or refusing to hire or otherwise discriminating against any individual with respect to compensation, terms, conditions, or privileges of employment because of race, color, national origin or other prohibited bases).
transparency measures, the impact of the new Dodd-Frank Act requirements, and the principles recommended in Part II of this report can inform any future efforts to enable consumers to receive, understand, and use information about exchange rates and other components of remittance transfer prices.

In the credit market, supplementing credit files with remittance histories may give some senders new opportunities to enter the financial mainstream – if those histories permit the creation or improve the accuracy of credit scores, and in some cases, increase them. The CFPB is initiating research that will shed light on the nature and extent of this opportunity. The research will analyze the extent to which remittance histories might enable or improve predictions of credit risk, and, if so, whether these histories tend to increase or decrease credit scores relating to remittance senders. Even if remittance history aids the prediction of credit risk, its use in credit scores and credit decisions may present significant business obstacles, new legal questions, and regulatory burdens.

Further research on the behavior and finances of consumers who send remittance transfers may provide new insights into the factors most conducive to their financial success, and the best practices of the financial services providers with whom they do business.
Appendix A: Estimated average prices for sending money transfers from the United States to select countries

<table>
<thead>
<tr>
<th>Receiving Country</th>
<th>$200 Transfer from the United States</th>
<th>$500 Transfer from the United States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fee ($)</td>
<td>Foreign Exchange Cost (% of $200)*</td>
</tr>
<tr>
<td>Brazil</td>
<td>8.89</td>
<td>3.9</td>
</tr>
<tr>
<td>China</td>
<td>18.02</td>
<td>2.17</td>
</tr>
<tr>
<td>Colombia</td>
<td>7.59</td>
<td>0.51</td>
</tr>
<tr>
<td>Dom. Rep.</td>
<td>8.01</td>
<td>1.96</td>
</tr>
<tr>
<td>Ecuador*</td>
<td>7.37</td>
<td>0</td>
</tr>
<tr>
<td>El Salvador*</td>
<td>10.43</td>
<td>0</td>
</tr>
<tr>
<td>Ghana</td>
<td>12.1</td>
<td>4.75</td>
</tr>
<tr>
<td>Guatemala</td>
<td>9.72</td>
<td>1.13</td>
</tr>
<tr>
<td>Guyana</td>
<td>11.59</td>
<td>1.36</td>
</tr>
<tr>
<td>Haiti*</td>
<td>12.1</td>
<td>0</td>
</tr>
<tr>
<td>Honduras</td>
<td>10.83</td>
<td>0.18</td>
</tr>
<tr>
<td>Receiving Country</td>
<td>Fee ($)</td>
<td>Foreign Exchange Cost (% of $200)*</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>India</td>
<td>5.13</td>
<td>0.89</td>
</tr>
<tr>
<td>Indonesia</td>
<td>11.44</td>
<td>1.46</td>
</tr>
<tr>
<td>Jamaica</td>
<td>10.32</td>
<td>2.00</td>
</tr>
<tr>
<td>Lebanon</td>
<td>24.66</td>
<td>0.23</td>
</tr>
<tr>
<td>Mexico</td>
<td>11.11</td>
<td>1.31</td>
</tr>
<tr>
<td>Nicaragua*</td>
<td>11.4</td>
<td>0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>10.62</td>
<td>1.59</td>
</tr>
<tr>
<td>Pakistan</td>
<td>13.23</td>
<td>1.27</td>
</tr>
<tr>
<td>Panama*</td>
<td>15.25</td>
<td>0</td>
</tr>
<tr>
<td>Peru</td>
<td>7.71</td>
<td>0.12</td>
</tr>
<tr>
<td>Philippines</td>
<td>10.31</td>
<td>1.08</td>
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<tr>
<td>Thailand</td>
<td>21.41</td>
<td>1.51</td>
</tr>
<tr>
<td>Vietnam</td>
<td>13.8</td>
<td>0.32</td>
</tr>
</tbody>
</table>

**Source:** The World Bank Group, *Remittance Prices Worldwide: Making Markets More Transparent* (online at remittanceprices.worldbank.org) (accessed June 27, 2011) (first quarter 2011 data); CFPB analysis. Averages are based on
surveys of a selection of firms sending transfers to each country. Averages focus on cash-to-cash transfers, but also include other types of transfers, and are not adjusted to reflect the volumes transferred by each surveyed firm. Foreign exchange costs reflect the spread, as compared to the interbank rate (or, in the case of transfers to Brazil, the “parallel” rate). Fees listed reflect fees charged at the time of sending. Additional fees may be charged at the destination. Methodology is described in more detail at *Remittance Prices Worldwide: Making Markets More Transparent* (online at remittanceprices.worldbank.org/Methodology) (accessed June 27, 2011).

* For transfers to Ecuador, El Salvador, Haiti, Nicaragua, and Panama, all the surveyed providers pay out transfers in U.S. dollars, and thus there is no foreign exchange cost. For transfers to other countries, a subset of the surveyed providers may pay out transfers in U.S. dollars (and thus not charge foreign exchange costs). Other surveyed providers may not have provided exchange rate information. As a result, the average foreign exchange costs may be underestimated.
Appendix B: Description of database to be used in planned CFPB research

The Remitter Sample and Remittance Data

The remitter sample will consist of 500,000 consumers who sent one or more transfers from the United States to a foreign location during 2007 or 2008, and for whom the RTP has contact information. The sample will be drawn from customers, rather than from transactions, so that a customer who sent one transfer would have the same probability of being selected as a customer who sent ten transfers.

Once the remittance sample has been selected, all transactions made by those customers during the period January 1, 2007, to January 1, 2011, will be identified. The RTP will provide the following data about each of those transactions to the CFPB:

- customer ID number created for this study;
- date;
- amount;
- mode of payment (e.g., cash, credit card, debit card);
- destination; and
- how funds are received:
  - point of sale/cash; or
  - deposited into a bank account.

The RTP will not forward to the CFPB any personally identifiable information, such as consumers’ names or addresses.

The Credit History and Credit Score Data

The RTP will forward to the CRA the names and addresses of the customers in the remitter sample. The CRA will attempt to match those names and addresses to its database of credit files. For those customers for whom the CRA is able to locate a credit file in its database, the CRA will provide the following information to the CFPB, via the RTP:

- customer ID number created for this study; and
- credit history information as of January 1, 2009, and January 1, 2011:
  - consumer report, including information on, for example:
    - trade line information with payment history; and
    - public judgment information;
  - set of attributes; and
  - standard credit score, such as a VantageScore or FICO score.

The CRA will also select a random sample of 200,000 consumer reports from its database, after consulting with Bureau staff on the sampling process (the “control sample”). The CRA will provide the same credit history information to the CFPB for the control sample that it provides for the remitter sample.

Again, neither the CRA nor the RTP will forward to the CFPB any personally identifiable information, such as consumers’ names, addresses, or Social Security numbers.