U.S. DEPARTMENT OF THE TREASURY

## Press Center

# Consumer Financial Protection Bureau Releases Report on Issues Facing Users of International Money Transfers

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***Report Recommends Principles for Informing Consumers About Exchange Rates; Examines Potential Use of Remittance Data in Credit Scores***

**WASHINGTON** – A report released today by the Consumer Financial Protection Bureau (CFPB) recommends principles for maximizing consumers' ability to receive and use exchange rate information when making remittance transfers, and examines the incentives and challenges related to using remittance data in credit scores.

Each year, consumers in the United States send tens of billions of dollars to family members, friends, businesses, and others abroad through remittance transfers – electronic transfers from U.S. senders to recipients in foreign countries. This report, mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), analyzes two subjects related to remittance transfers: the transparency and disclosure to consumers of exchange rates used in remittance transfers, and the potential for using remittance histories to enhance the credit scores of consumers.

"International money transfers can be a vital link to family members and friends abroad," said Elizabeth Warren, Special Advisor to the Secretary of the Treasury on the CFPB. "Information about exchange rates has the potential to help remittance senders make smarter choices about which services best meet their needs. And if remittance histories can improve the predictiveness of credit scores, then supplementing credit files with remittance data may give some consumers new opportunities to establish a credit history."

<u>Remittance Transfers and Exchange Rates</u>

The Dodd-Frank Act will require remittance transfer providers to disclose, in most circumstances, the exchange rates they use and other information at the time that consumers request remittance transfers and when they pay for those transactions. The Board of Governors of the Federal Reserve System has proposed rules to implement those and other new requirements related to remittance transfers. The CFPB will assume responsibility for issuing final disclosure rules and will review comments received by the Board following the close of the comment period on July 22.

The CFPB's report recommends that, with respect to exchange rates, policymakers and other stakeholders observe four principles for enhancing 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.

The report finds that implementation of some of the Dodd-Frank Act's new requirements related to remittance transfers – including mandatory disclosures of the exchange rate used – could shed light on any need for additional exchange rate transparency measures. The CFPB also recommends that any additional transparency measures be evaluated and considered together with the range of mechanisms for increasing the competitiveness of the remittance transfer market, or promoting other consumer protection goals.

<u>Remittance Transfers and Credit Scores</u>

Credit files do not routinely include remittance data. 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 for some consumers who are otherwise unscorable.

To use remittance histories in credit scores, market participants would need to adjust their business systems and processes to adapt to and make use of the new data. If remittance histories are predictive, then any remittance-based credit scores that were developed might have particularly positive implications for some consumers born outside of the United States. These consumers send a large proportion 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. In other cases, existing credit data may overestimate the credit risk such individuals pose to lenders. But the actual impact of any remittance-based credit score would depend on the business model, the scoring model, the data used, and the individual. In some cases, credit scores might increase; in other cases, they might remain the same or decrease.

The report discusses the potential for remittance histories to inform credit scores, and describes planned CFPB research regarding the relationship between remittance histories and credit scores. A critical que

The full version of the CFPB remittance transfers report can be found at http://www.consumerfinance.gov/wp-content/uploads/2011/07/Report_20110720_RemittanceTransfers.pdf.