Regulation E back to basics: Remittance transfers

THE GLOBAL REMITTANCE MARKET represents a significant flow of capital, often serving as a vital lifeline for families and communities across borders. In the United States, the Electronic Fund Transfer Act (EFTA), as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act, establishes critical consumer protections for these international money transfers. These protections are implemented through Regulation E, with Subpart B specifically dedicated to the requirements for remittance transfers (12 CFR §§1005.30-1005.36).

Compliance with Subpart B is not merely a regulatory hurdle for financial institutions (FIs), money services businesses (MSBs), fintechs, and compliance professionals. It is fundamental to maintaining consumer trust, mitigating significant financial penalties, and ensuring operational soundness.

Breaking down the basics: Definitions

A clear understanding of the terminology used in Subpart B is the bedrock of compliance. The regulation defines several key terms that determine the scope and applicability of its requirements.

- **Remittance transfer:** This is the core concept, defined as an electronic transfer of funds requested by a sender to a designated recipient, sent by a remittance transfer provider. This includes certain bill-payment services. The definition applies regardless of whether the sender holds an account with the provider. The rule explicitly excludes small value transactions of $15 or less.
- **Sender:** A sender is a consumer who requests a transfer primarily for personal, family, or household purposes. This excludes transfers requested by businesses, including sole proprietors.
- **Designated Recipient:** This is the person specified by the sender to receive the funds at a location in a foreign country. Transfers to recipients within the U.S. (or its territories/ possessions) are not covered, even if initiated from abroad.
- **Remittance Transfer Provider:** Any person or business (including banks, credit unions, money transmitters) that provides remittance transfers for consumers in the normal course of their business. This applies whether or not the consumer has an account with the provider. A provider is deemed not to be acting in the normal course of business if they provided 500 or fewer remittance transfers in the previous calendar year and continue to provide 500 or fewer in the current calendar year. If they provide 500 or more remittance transfers in the current calendar year, then within a reasonable amount of time, not to exceed six months, they must come into compliance with subpart B of Regulation E from the time they provided the 501st remittance transfer.
- **Business Day:** Any day the provider's offices are open to the public for carrying on substantially all business functions. This includes back-office operations, not just teller transactions. Institutions can elect whether to count abbreviated days (like short Saturdays) as business days.

Disclosure requirements

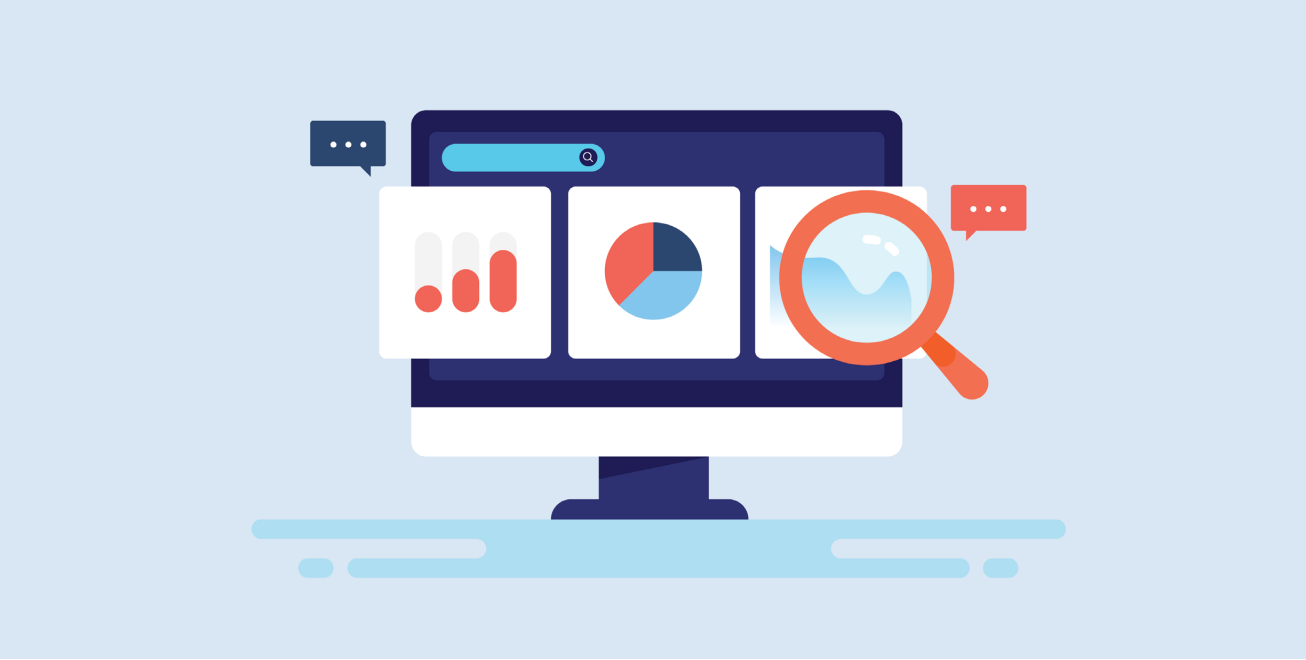
Transparency is a cornerstone of Subpart B, mandated through specific disclosures provided to the sender at key points in the transaction. Generally, two disclosures are required: one before payment (prepayment disclosure) and one at the time of payment (receipt), although a combined option exists. Failure to provide accurate and timely disclosures is a frequent source of compliance violations and enforcement actions.

General formatting and language requirements

All disclosures must be clear and conspicuous. Generally, disclosures must be in writing and in a form the consumer can keep. (Refer to Appendix A to Part 1005 — Model Disclosure Clauses and Forms.) Electronic disclosures are permitted if the sender requests the transfer electronically. Disclosures via mobile app or text message need not be retainable. Though not common today, faxed disclosures are considered "in writing."

Specific items must be grouped together, such as sender-paid amounts, and recipient-received amounts. In addition, certain items must be in close proximity to each other, such as placing the exchange rate near the prepayment information.

Disclosures must be segregated from other information, by using borders or separate pages, although certain directly related information (like confirmation codes or logos) can be outside the segregated box. Disclosures must be in English and, potentially, in a foreign language. This requirement hinges on whether a foreign language is "principally used" by the provider to advertise, solicit, or market at the specific office (physical location, website, phone number) where the transaction occurs, or when an error is asserted, or if it was the language "primarily used" by the sender



for that interaction (provided it is also a "principally used" language). Accurate translations of required terms are necessary.

Prepayment disclosure:
This disclosure must be provided before the sender pays a fee and must clearly state the following:

- *Transfer Amount* (Funding currency): The exact amount the sender wants to send.
- *Transfer Fees* (Funding currency): Any fees charged by the provider.
- *Transfer Taxes (*Funding currency): Any taxes charged by the provider.
- *Total Amount* (Funding currency): The sum of the transfer amount, transfer fees, and transfer taxes.
- *Exchange Rate:* The exchange rate used to convert the transfer amount to the recipient's currency, if applicable. It must be consistently rounded to two to four decimal places, or more if needed for accuracy. Calculations must use the pre-rounded rate. Inaccurate exchange rate disclosures are a commonly noted violation during audits and examinations.
- *Transfer Amount* (Recipient currency): The total amount the recipient will receive in their currency.
- *Other Fees* (Recipient currency): Third-party fees imposed by intermediaries or the recipient's institution (required only if such fees apply).
- *Total to Recipient* (Recipient currency): Final amount the recipient will receive after provider fees, taxes, and covered third-party fees are deducted.
- *Disclaimer:* A statement that non-covered third-party fees (e.g., recipient bank fees) or taxes collected by others may apply and reduce the amount received, if applicable. Providers may optionally disclose known or estimated amounts of these non-covered fees and taxes.

If the transaction is conducted orally or entirely by mobile app or text message, the prepayment disclosures may be provided orally, by mobile app, or by text message, provided that the right of cancellation (discussed below) is also disclosed either orally, by mobile app, or text message.

Receipt:
Receipts must be provided when the sender makes payment (with exceptions for phone and certain account-based transfers). The receipt must include all the prepayment disclosures plus:

- *Date available:* Date funds will be available to the recipient. Providers can state "may be available sooner."
- *Recipient Information:* Name and, if provided, phone and address.
- *Sender Rights Statement:* Regarding error resolution and cancellation (Use Model Form A-37 provided in Appendix A to Part 1005 or similar language).
- *Provider contact information:* Name, phone number(s), website.
- *Regulator contact information:* State licensing agency (if applicable) and Consumer Financial Protection Bureau (CFPB) name, phone, and website.
- *Transfer date:* For transfers scheduled three or more business days in advance.

Combined disclosure
Providers can give a single disclosure containing all receipt information before the sender pays for the transfer. If they do, they must also provide proof of payment (e.g., stamp on disclosure, separate slip) when payment is made. If the terms change (e.g., exchange rate) between providing the disclosure and making payment, new disclosures must be provided before accepting payment.

While Regulation E generally mandates the disclosure of exact figures, it acknowledges that determining precise amounts may not always be feasible at the time disclosures are required. Section 1005.32 provides

specific, limited exceptions allowing providers to use estimates for certain disclosure elements. Any estimated figure must be clearly labeled as "Estimated" on the disclosure.

Handling errors

Mistakes happen, funds go astray, or delays occur. Section 1005.33 establishes a mandatory framework for providers to investigate and resolve errors alleged by senders, providing crucial consumer protection.

What constitutes an "error"

The definition is specific and includes: an incorrect amount paid by the sender (vs. disclosed total); computational or bookkeeping errors by the provider; failure to make available the disclosed "Total to Recipient" amount (unless due to permissible estimates, extraordinary circumstances, or properly disclosed non-covered third-party fees or taxes); failure to make funds available by the disclosed "Date Available" (unless due to extraordinary circumstances, unforeseeable compliance screening delays, sender fraud, or the sender providing incorrect account/institution information under the specific conditions of §1005.33(h)); and sender's request for required documentation or additional information/clarification about a transfer.

Notice of error from sender

The sender must notify the provider, orally or in writing, within 180 days of the disclosed availability date (or 60 days after requested information was sent, if later). The notification must allow the provider to identify the sender, recipient, transfer, and indicate why an error is believed to have occurred.

Investigation timelines and actions

Once the provider receives the notice of error, they must promptly investigate and determine if an error occurred within 90 days of receiving the notice. The provider is to report the findings to the sender within three business days after completing the investigation and correct the error within one business day (or as soon as practicable) after receiving the sender's remedy choice. Remedies vary by error type.

If no error or a different error occurred, the provider must provide a written explanation of findings and note the sender's right to request copies of documents relied upon for their determination and provide them promptly upon request.

Reversing course: Cancellation and refund procedures

Recognizing that senders may sometimes quickly realize they made a mistake or change their minds, Regulation E provides a limited, time-sensitive right to cancel a remittance transfer. The provider must receive the cancellation request no later than 30 minutes after the sender makes payment.

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The request must enable the provider to identify the sender and the specific transfer to be canceled. As a key condition, the funds must not have already been received by the designated recipient, either in cash or through deposit into their account. If the cancellation request is valid, the provider must issue a refund within three business days of receiving the request. The refund must be for the total amount of funds provided by the sender for the transfer, including all fees and taxes paid (unless refunding taxes is prohibited by law), at no additional cost to the sender.

Building a robust remittance compliance program

Successfully navigating the requirements of Regulation E, Subpart B demands more than just a cursory understanding of the rules. It requires a comprehensive, proactive, and integrated approach to compliance embedded within the institution's operations and risk management framework. The core pillars of compliance revolve around accurate definitions, meticulous disclosures (including the careful use of estimates), timely and correct error resolution, and proper handling of cancellations. Achieving sustainable compliance necessitates moving beyond the letter of the law to implement robust best practices:

Strong compliance management system (CMS)

A well-designed CMS, tailored to the specific risks inherent in remittance transfers, is essential. This system should encompass clear policies and procedures, designated compliance personnel, ongoing monitoring and auditing, thorough training programs, effective complaint tracking, and rigorous third-party/agent oversight.

Written policies and procedures:

Policies and procedures should be comprehensive. They need regular review and updates to reflect regulatory changes and operational realities. Enforcement actions frequently cite inadequate or missing policies.

Targeted training

Regular, effective training is critical for all staff involved in the remittance process, from front-line personnel handling disclosures and error and cancellation intake to back-office operations, compliance, and audit teams. Training should cover the specific requirements, common pitfalls, and the importance of avoiding deceptive practices in marketing and communications.

Leveraging technology

Utilizing regulatory technology can significantly enhance compliance efforts. Automated systems for generating disclosures, tracking estimate eligibility thresholds, monitoring transactions, managing error and cancellation workflows, and maintaining records can improve accuracy, efficiency, and auditability.

Proactive auditing and monitoring

Regular internal audits and continuous monitoring are vital for identifying weaknesses or deviations from policy before they lead to systemic failures or regulatory violations.

Diligent record retention

Strict adherence to the record-keeping requirements (§1005.13 and §1005.33(g) for error

resolution) is non-negotiable. Maintaining thorough documentation for the required period (typically two years) is crucial for demonstrating compliance during examinations or investigations. Failure in this area is a recurring theme in enforcement actions.

Lessons from enforcement actions consistently highlight critical areas of focus: the accuracy of disclosures (fees, exchange rates, availability dates), the proper execution of error resolution procedures (investigation timelines, remedy application, fee refunds), the importance of truthful advertising free from deceptive claims, the necessity of adequate written policies and procedures, and the fundamental requirement of retaining compliance evidence.

The remittance landscape continues to evolve, driven by technological innovation (fintech, mobile payments, blockchain), shifting consumer expectations (speed, cost, convenience), and ongoing regulatory attention. Therefore, effective Subpart B compliance cannot be viewed as a static, check-the-box function. It requires an adaptive approach, constantly monitoring regulatory developments, updating internal frameworks, and refining practices to meet both current requirements and anticipate future trends. Ultimately, robust compliance with Regulation E, Subpart B is not just a legal necessity; it is a critical investment in maintaining consumer trust, operational integrity, and a sustainable competitive position in the dynamic global remittance market. ■

ABOUT THE AUTHOR

ELIZABETH (LIZ) CREW, CRCM, CAMS, is a consultant at CrossCheck Compliance LLC, a nationwide regulatory and risk management consulting firm focused on providing regulatory compliance, internal audit, fair lending, loan review, due diligence, and litigations support services for the financial industry. Liz has over 25 years of experience in banking with extensive regulatory compliance and Bank Secrecy Act (BSA) knowledge. Prior to CrossCheck, she held roles as Compliance Officer, CRA Officer and BSA Officer for community banks. Reach her at ecrew@crosscheck.com.

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Electronic Fund Transfer Act (Reg E):
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