

A Friendly Introduction to Regulation Z

Compliance plays a crucial role in the financial industry, impacting various areas such as credit cards and dispute resolution. One key regulation you'll come across when dealing with consumer credit claims is Regulation Z (Reg Z). But what exactly is Reg Z, why is it important, and how does it influence credit dispute management?

A solid understanding of Regulation Z is essential for anyone working with consumer credit and payment services. In this article, we'll explore the origins of Reg Z, break down its key requirements, and discuss its impact on the dispute resolution process.

What is Reg Z

Established in 1968, the Truth in Lending Act (TILA) aims to promote the informed use of consumer credit by requiring disclosures about its terms and costs. Regulation Z is the Federal Reserve Board's implementation of TILA. Regulation Z sets clear procedures for how creditors must handle disputes related to consumer credit. It defines what types of credit issues can be disputed, sets timelines for investigations, and provides guidelines for making corrections. The regulation also outlines required disclosures and establishes strict deadlines. These rules help ensure that cardholders have a fair and consistent experience, no matter which creditor they are working with.

Reg Z applies to various entities including banks, credit unions, credit card issuers, neobanks, and other creditors that offer consumer credit.

Notification and Time Limits

Cardholders should regularly review their credit card statements. Issues that are not fraudulent in nature, like receiving the wrong merchandise or quality concerns, are known as "billing errors."

If they spot an error, they must notify their creditor in writing within 60 days of the statement date on which the error appeared. Reg Z is flexible and states that the error notice doesn't have to be addressed to a specific person or department.

You may submit a late error notice after 60 days from receiving the statement where the transaction appears, but the same regulatory protections may not apply.

The creditor must acknowledge receipt of the billing error notice within 30 days unless the error is resolved within that time frame. The creditor then has two complete billing cycles, but no more than 90 days, to investigate and resolve the dispute.

Covered Transactions

Reg Z primarily covers consumer credit transactions involving EFTs:

- Point of Sale (POS) transactions such as credit card purchases
- Digital transfers like account payments and Balance Transfers
- Online and mobile payments including bill payments, digital wallets, and peer-to-peer payments
- Physical and digital convenience checks
- Cash advances at an ATM

In essence, Reg Z covers transactions whenever a cardholder is extended credit, including using a credit card for purchases.

Investigation and Resolution

Once a billing error notice is received, the creditor must conduct a reasonable investigation. During this process, the cardholder can withhold payment on the disputed amount and related charges. The creditor cannot collect on this amount or report it as delinquent during the investigation.

The scope of the investigation varies based on the type of error. For example:

- For unauthorized charges, the investigation may include reviewing the cardholder's spending patterns, checking where the purchases were delivered, and possibly requesting a police report.
- For non-receipt of goods or services, the investigation might involve reviewing the purchase order to see where the items were delivered or mailed.

If the creditor finds that a billing error occurred, they must promptly correct it, credit the account for the disputed amount and any related charges (including interest or fees), and send a correction notice to the cardholder within two statement cycles.

If no billing error is found, the creditor must provide an explanation to the cardholder outlining their findings. Like the correction notice, this explanation must be sent within two statement cycles. Although you may have a grace period, you'll be required to pay the disputed amount back, which may increase your minimum monthly payment.

Reassertion

It can be frustrating and confusing when your bank determines no error had occurred, thus denying your claim. Cardholders may request that their creditor reinvestigate the error, however, the creditor has no obligation to do so, and may require that you provide new information or stronger evidence.

Penalties

Penalties for non-compliance with Reg Z can be significant. They may include:

- Damages incurred by the consumer
- Statutory damages of up to \$1,000 for individual actions
- Court costs and attorney fees
- Regulatory fines and penalties

In addition to these financial penalties, non-compliance can result in reputational damage and loss of cardholder trust.

Wrap Up

Regulation Z ensures cardholders are treated fairly by requiring creditors to follow a clear process for resolving billing errors. Creditors must provide timely disclosures, conduct thorough investigations, and address errors promptly, with deadlines and communication requirements holding them accountable.

For creditors, compliance with Regulation Z is essential to avoid penalties and build trust with cardholders. As consumer credit evolves, staying informed about Reg Z and related regulations is vital for operating in the financial industry. The Quavo team has firsthand experience training, managing, coding, and completing fraud and dispute investigations for financial institutions of all sizes, from local credit unions to top U.S. banks. Built by real bankers, Quavo's software simplifies regulatory requirements with automated compliance actions, deadline timers, and seamless integrations that eliminate manual work.