

NOTICE to Readers of HUD Mortgage Disclosure Forms Testing Reports

On July 29, 2002, the Department of Housing and Urban Development (HUD) proposed a new rule under the Real Estate Settlement Procedures Act (RESPA) to simplify and improve the process for consumers to obtain home mortgages. Between 2003 and 2004, HUD tested several versions of mortgage disclosure forms, including a Good Faith Estimate (GFE) and Mortgage Package Offer (MPO) form, in several locations throughout the United States.

In July and August 2005, HUD held seven roundtable discussions about possible changes to HUD's RESPA regulations with industry, including small business entities, consumers, and other interested parties. HUD reached out for public reaction to the GFE and other disclosure forms it was considering. HUD currently expects to propose changes to its RESPA regulations that would, among other things, improve and standardize the GFE to improve disclosure of loan terms and settlement costs.

These documents describe the testing performed during 2003 and 2004 and the development of the forms tested to improve borrower comprehension of the material presented and eliminate potential bias against mortgage brokers. The final round of consumer testing showed that participants using the GFE form developed, were highly successful in identifying the cheapest loans with success rates in the 90-plus percent range whether the GFE offer was from a lender, mortgage broker or the two offers cost the same. The RESPA reform final rule that the testing was initially designed to support was withdrawn in 2004.

HUD is no longer considering the Mortgage Package Offer, and the new GFE to be proposed will reflect improvements to the prior form.

This file covers the third of 5 rounds of testing. In Round 3, the major focus is the qualitative testing of a new format, relative to that used in round 2, for disclosing the Yield Spread Premium



Testing HUD's New Mortgage Disclosure Forms With American Homebuyers

Round 3

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Prepared for:

**U.S. Department of Housing and Urban Development
Office of Policy Development and Research**

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1 Introduction

HUD proposed a new rule on July 29, 2002, under the Real Estate Settlement Procedures Act (RESPA) with the goal of simplifying and improving the process of obtaining home mortgages. As part of the proposed rule, new forms were proposed, including a revision of the existing Good Faith Estimate of Settlement Costs (GFE) and a new form to be used with mortgage packages called the Mortgage Package Offer (MPO). Both forms are to be used by mortgage brokers and lenders to provide borrowers with more accurate estimates of their closing costs.

HUD had seven goals in revising the forms:

- Facilitate Shopping for Mortgages
- Distinguish Items Homebuyers Can Shop For
- Make Basic Costs Clear
- Show Yield Spread Premium and Discounts to Borrowers
- Make Tolerances on HUD-1 Clear
- Clearly Convey Prepayment Penalties and Balloon Payments
- Provide a Crosswalk from the Estimates from the GFE and MPO to the HUD-1 Settlement Statement

Ultimately, HUD wants to help borrowers become better consumers.

HUD has contracted with Aspen Systems, with a subcontract to the Kleimann Communication Group (KCG), to help develop the forms, including the GFE, the MPO, and a crosswalk between each of these forms and the HUD-1 settlement statement.

We developed the new forms in an iterative design and testing cycle with several phases:

Phase 1: Redesign the forms (both language and graphics)

Phase 2: First round of usability testing with potential homebuyers

Phase 3: Redesign the forms based on testing

Phase 4: Second round of usability testing with potential homebuyers

Phase 5: Redesign of the forms based on testing.

Phase 6: Third round of usability testing with potential homebuyers

Phase 7: Redesign of the forms based on testing.

Each of the first two rounds of usability testing involved 45 subjects with 15 in each of three cities. The usability testing in Round 3 included 15 subjects in each of 4 cities for a total sample size of 60 subjects. New homebuyers and experienced homebuyers were part of the subject pool. The subjects included diverse racial and ethnic groups, the elderly, low education, and low income groups.

This report provides information about the following questions for the third round of usability testing:

- How Did We Develop and Test the Forms?
- How Successful Are the Forms in Meeting HUD Goals?
- How Did the Subjects React to the Forms?
- What Recommendations Do We Have About the Forms?

The appendices include the testing materials and the final forms.

2 How Did We Develop and Test the Forms?

We developed and revised four forms during the course of this project:

- the Good Faith Estimate of Settlement Costs (GFE),
- the Guaranteed Mortgage Package Agreement (GMPA), renamed the Mortgage Package Offer (MPO) after the first round of testing,
- the crosswalk between the GFE and the HUD-1, and
- the crosswalk between the MPO and the HUD-1.

We tested the revised forms in a third round of testing involving a total of 60 subjects in 4 cities (15 subjects in each city). This section describes the details of the forms development, testing approach, target population, test conditions, sites visited, and the subjects tested and their characteristics.

Forms Development

For the third round of testing, we made changes to the forms based on the subjects' responses to the forms during the second round of testing and also in response to comments that HUD had received from various interest groups who will be affected by the forms. The Good Faith Estimate of Settlement Costs (GFE) and the Mortgage Package Offer (MPO) had significant modifications for the third round. The crosswalk between the GFE and the HUD-1 and the crosswalk between the MPO and the HUD-1 also were changed in order to facilitate better consumer understanding.

Changes to the GFE

- The presentation of the Yield Spread Premium was changed significantly on the GFE. Instead of appearing in a calculation on the second page of the form, discount points and the yield spread premium were shown in separate boxes on the third page.
- The tolerance section was changed on the GFE and put directly below the settlement costs on page 2. It was hoped that the close proximity of the tolerances to the costs would aid understanding.
- A new section was included on the first page for the rate lock period.

Changes to the MPO

- A new section, "Charge or Credit for Your Points" was added to the MPO.
- A new table was added to the Accepting This Mortgage Package Offer section on the last page of the MPO. The table was supposed to allow consumers to see how the Charge or Credit for Your Points would change as the interest rate changed.

- The tolerance section was changed and simplified.
- The services that are included in the package were changed to include a number of other items including: closing services, title search, title examination, and lender's title insurance.
- A new section was included on the first page for the rate lock period.

In addition to these changes in the forms, we tried to assess whether consumers were affected by the "shopping" paragraph in section 1 of the MPO and the GFE.

Crosswalks

The crosswalks were also changed. The crosswalks between the GFE and MPO and the HUD-1 settlement statement are difficult for consumers because the presentation of items that should match frequently have different names between the forms. Also, consumers must hunt for the items on the HUD-1 settlement statement because they are in a different order than they are on the GFE and MPO. Results from the second round of testing indicated that the crosswalks were difficult for consumers. The crosswalk from the GFE was changed by adding a new table in the front of the form designed to help consumers enter the information about items with different tolerances correctly on the form.

Testing Approach

We used a comprehensive testing protocol that addressed the key issues and questions about the forms. See the appendices for copies of the scripts used in the testing. The interviews with each subject lasted for an hour and a half with a 10-minute break. The interviews had two parts, one structured and one unstructured.

In the *unstructured* portion of the interview, participants were asked to think aloud as they looked at each form for the first time. This unstructured and unprompted portion of the interview allowed us to capture users' initial reactions—including areas that they responded well to, areas they did not understand, and areas they questioned. This valuable information is captured before participants are questioned about different elements of the forms, ensuring that the interviewer does not lead participants to discuss information they would not have noticed on their own.

In the *structured* portion of the interview, we asked targeted questions to determine how well participants understood certain areas of the forms and how we might improve them. The questions we used in the structured interview were based on the key research questions that we identified as HUD goals.

Target Population

The GFE, MPO, and crosswalks are forms that are used by those applying for a mortgage to buy or refinance a home. Therefore, the target population for this study included two main groups of potential borrowers: first-time homebuyers and repeat

homebuyers or persons who might refinance their homes. We tested the forms on members of these two groups defined as follows:

- First-time homebuyers—persons who have not bought or refinanced a home in the last two years and are actively seeking to buy a home as indicated by at least one of the following:
 - Have gone to open houses
 - Have contacted a real estate agent
 - Have pre-qualified for a mortgage loan
- Experienced homebuyers—persons who have bought or refinanced a home in the last two years

Sites and Subjects

We tested the forms at four geographically dispersed locations that represent diverse settings and populations (Table 1).

Table 1. Sites for the Testing

Sites	Number of Subjects Tested
Los Angeles, CA	15
Wilmington, DE	15
Minneapolis, MN	15
Tulsa, OK	15
Total	60

Testing Conditions

We interviewed all subjects for one and a half hours. Not all subjects received the same materials. Half of the subjects were tested primarily on their ability to work with the GFE and MPO; the other half were tested regarding their ability to use the crosswalks. In cases when they did receive the same materials, we varied the order in which the subject received the forms, reasoning that whichever form they saw second might seem clearer to them because they became more familiar with the issues after looking at the first form.

These two considerations resulted in four conditions for the subjects (Table 2). The number of subjects tested in each condition was 15.

Table 2. Conditions of Testing for Round 1

Condition	Materials
Condition 1	2 GFEs first, MPO second
Condition 2	MPO first, 2 GFEs second
Condition 3	2 GFEs first, followed by the Crosswalk to the HUD-1
Condition 4	2 MPOs first, followed by the Crosswalk to the HUD-1

The task descriptions of what the subjects saw and did during the testing and the allocated time for breaks are shown below in Tables 3, 4, 5, and 6.

Table 3. Schedule of Testing for Condition 1 in Round 3

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participants read and sign the confidentiality statement and fill out the questionnaire
Task 1	15	The participant practices the task of reading and thinking aloud, and then receives and reacts to a sample GFE that has been completed as an example.
Task 2	20	We ask the participant questions about the sample GFE. We give the participant another GFE to compare.
Break	10	
Task 3	15	The participant receives and reacts to a sample MPO that has been completed as an example.
Task 4	15	We ask the participant questions about the sample MPO and ask the participant to compare the GFEs and the MPO.
Total time	1 hour, 30 minutes	

Table 4. Schedule of Testing for Condition 2 in Round 3

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participants read and sign the confidentiality statement and fill out the questionnaire
Task 1	15	The participant practices the task of reading and thinking aloud. The participant receives and reacts to a sample MPO that has been completed as an example.
Task 2	15	We ask the participant questions about the sample MPO.
Break	10	
Task 3	15	The participant receives and reacts to a sample GFE.
Task 4	20	We ask the participant questions about the sample GFE. We give the participant another GFE to compare. We ask the participant to compare the GFEs and the MPO.
Total time	1 hour, 30 minutes	

Table 5. Schedule of Testing for Condition 3 in Round 3

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participants read and sign the confidentiality statement and fill out the questionnaire
Task 1	15	The participant practices the task of reading and thinking aloud. The participant receives and reacts to a sample GFE. We give the participant another GFE to compare.
Task 2	10	We give the participant the crosswalk to the HUD-1 settlement statement and an example HUD-1 settlement statement that matches the GFE. The participant looks at these while thinking aloud.
Break	10	
Task 3	35	The participant attempts to fill in the crosswalk from the GFE. After 15 minutes we give the participant a correctly completed crosswalk and ask them to fill in the information from the HUD-1 while thinking aloud.
Task 4	5	We ask the participant questions about how the GFE compares with the HUD-1.
Total time	1 hour, 30 minutes	

Table 6. Schedule of Testing for Condition 4 in Round 3

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participants read and sign the confidentiality statement and fill out the questionnaire
Task 1	15	The participant practices the task of reading and thinking aloud. The participant receives and reacts to a sample MPO. We give the participant another MPO to compare.
Task 2	10	We give the participant the crosswalk to the HUD-1 settlement statement and an example HUD-1 settlement statement that matches the MPO. The participant looks at these while thinking aloud.
Break	10	
Task 3	35	The participant attempts to fill in the crosswalk from the MPO. After 15 minutes we give the participant a correctly completed crosswalk and ask them to fill in the information from the HUD-1 while thinking aloud.
Task 4	5	We ask the participant questions about how the MPO compares with the HUD-1.
Total time	1 hour, 30 minutes	

Recruiting the Subjects

We recruited 60 subjects in four sites using the recruiting screener shown in Appendix A. Each of the facilities was required to use the same screener. The screener was based on the demographics that we were trying to obtain for the sample.

Eligibility Requirements

We had several criteria for recruiting subjects for the sample. First, we wanted one-third of the sample to be new homebuyers. Second, we wanted to test the forms with groups that might potentially have more difficulty with the forms, due to less experience or other reasons, including:

- The elderly—defined as 65 years or older
- African Americans
- Hispanic Americans—defined by self-identification
- Single females
- Low education—defined as not having graduated from high school

Recruitment by Site

In each location we recruited 15 participants that met the requirements shown in Table 7.

Table 7. Recruiting Criteria for the Sample

Individual Potential Homebuyers	
Number needed	Criteria
All 15	Can read and write English
At least 10 of the 15	Have not participated in a study with a particular facility in the last six months
At least 3, but not more than 5 of the 15	Consider themselves African American
At least 3, but not more than 5 of the 15	Consider themselves Hispanic American
At least 3, but not more than 5 of the 15	Are age 65 or older
At least 3 of the 15	Are single females
At least 3, but not more than 5 of the 15	Have not graduated from high school
5 of the 15	Are first-time homebuyers who plan to buy a home within six months
10 of the 15	Have purchased or refinanced a home in the past two years

Demographics

Table 8 shows the results of the recruiting efforts in each site. Overall, we achieved adequate representation from each of the groups that we wanted to include. We would have preferred to have more subjects with lower educational levels. The sample had good representation of different racial and ethnic groups.

Table 8. Demographic Characteristics of the Sample

Demographic Characteristic	Number in Sample	Percent of Sample
Age		
21 years or less	0	0%
22 to 34 years	14	24%
35 to 44 years	19	32%
45 to 54 years	12	20%
55 to 64 years	7	12%
65 years and over	8	13%
Race and Ethnicity		
Hispanic	12	20%
Black or African American	15	25%
Asian	3	5%
Education – highest grade completed		
Less than high school	1	2%
High school graduate	11	18%
Some college	19	32%
College graduate	15	25%
Graduate school	13	22%
Household Income Per Year		
Less than \$20,000	4	7%
\$20,000 to \$39,999	14	24%
\$40,000 to \$59,999	16	27%
\$60,000 to \$79,999	15	25%
\$80,000 to \$99,999	4	7%
\$100,000 and over	5	8%
No response	2	3%
Marital Status and Gender		
Single male	4	7%
Single female	18	30%
Married male	15	25%
Married female	23	30%
Total Respondents	60	100% (60)

We planned to have two-thirds of the sample be experienced homebuyers who had bought or refinanced a home in the last two years, but three-fourths of the sample were in this category as shown in Table 9. One of the sites misinterpreted our instructions thinking that a person could fulfill the requirement of wanting to buy in the next six months even though they had bought or refinanced in the past two years. Of those who planned to buy in the next six months, all but one had gone to open houses and had contacted a real estate agent.

Table 9. Homebuying Experience of the Sample

Homebuying Experience	Number in Sample	Percent of Sample
Bought or Refinanced in Past 2 Years	45	76%
Plan to Buy in Next 6 Months	14	24%
Of those who plan to buy:		
Have gone to open houses	13	93%
Have contacted a real estate agent	13	93%
Have pre-qualified for a mortgage loan	6	43%
N	59	100%

3 How Successful Are the Forms in Meeting HUD Goals?

After Round 3 testing, we evaluated the success of the forms in meeting HUD RESPA goals. Each of the following goals is discussed in terms of the results in this section.

Goal 1: Facilitate Shopping for Mortgages

Goal 2: Distinguish Items Homebuyers Can Shop for

Goal 3: Make Basic Costs Clear

Goal 4: Show Yield Spread Premium and Discounts to Borrowers

Goal 5: Make Tolerances to HUD-1 Clear

Goal 6: Clearly Convey Prepayment Penalties and Balloon Payments

Goal 7: Provide a Crosswalk from the Estimates from the GFE and MPO to the HUD-1 Settlement Statement

Goal 1: Facilitate Shopping for Mortgages

An important HUD goal is to encourage homebuyers to shop for the best loan terms possible. Two important aspects of attaining this goal are whether the subjects were willing to shop and whether they were able to choose the best loan offer. We discuss each of these topics below.

Willingness to Shop

What we did: In previous rounds of testing we had generally found that subjects said they would go to a number of different lenders before choosing one for their mortgage. The question we were particularly interested in for this round was whether the subjects would do this anyway or whether the forms were influencing their views through the wording of the “shopping” paragraph on both the GFE and MPO which reads:

How should you use this GFE [MPO] to shop for the best loan? We cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should compare this GFE [MPO] with those that you get from others. By comparing loan offers, you can shop for the best loan.

For this round of testing we asked subjects whether they would go to several different mortgage lenders before choosing one *before* they saw the forms. We also asked them the same question *after* they had read the forms. We wanted to know if the form influenced their opinion.

Results: When we asked subjects whether they would shop around before they saw either the GFE or the MPO, half said that they would and half said that they would not (Table 10).

Table 10. Willingness to Shop Before Seeing GFE or MPO

Attitude Before Reading GFE or MPO	Percent of Sample
Would shop around	50%
Would go to one particular bank or broker	50%
N	100% (30)

When we asked the same question after subjects had looked at the GFE or MPO, 80% of the subjects said they would shop around (Table 11). All but one of those who said initially that they would shop around still said they would shop around. However, there was a significant change in attitude for subjects who initially said they would not shop around: 66% changed their minds after reading the GFE or MPO, stating they would shop around after stating initially they would not. This result indicates that looking at the GFE or MPO influences the attitude of the subjects toward shopping around.

Table 11. Willingness to Shop After Reading GFE or MPO

Attitude After Reading GFE or MPO	All Subjects	Attitude Before Reading GFE or MPO	
		Would Shop Around	Would not Shop Around
Would shop around	80%	93%	66%
Would go to one particular bank or broker	20%	7%	33%
N	100% (30)	100% (15)	100% (15)

We also asked subjects to paraphrase the shopping paragraph to be sure that they understood what it meant. Their comments indicate that they did:

- *Means we're giving you the best deal possible at this time, but might not be the best out there.*
- *Not a guarantee, you need to shop around. Telling you to go.*
- *Telling you to compare with other people what kind of loan I can get.*
- *Telling you to shop around for the best rate.*
- *They're encouraging me to get estimates from other companies, which I didn't know I should do. This is good.*
- *This is an estimate. It is up to me if I want to accept it or shop around.*

Choosing the Best Loan Offer

What we did: In all of the previous rounds of testing, as well as this one, we asked subjects a series of questions about which is the best loan offer. We first asked them which offer was the "better deal" and then asked them which one they would choose. We wanted to know if they could tell which offer was the better deal even if they might choose another offer for other reasons, such as they preferred the MPO form to the GFE. One comparison was between two GFEs and another was to pick the best loan offer after receiving two GFEs and one MPO. For this round we added another two-way comparison for Conditions 3 and 4 between two MPOs.

Results: Table 12 shows the results for all three rounds of testing. The first four rows in the table show the two-way comparisons; the last two rows show the three-way comparisons.

Beginning with the two-way comparisons for the GFE, subjects in round 3 continued to be able to tell which offer was the better deal. In fact, 100% of the subjects identified the correct GFE when given the choice of two. A smaller percentage would choose this deal, but as we already mentioned, there could be a variety of reasons why they might want to choose a particular offer.

The results for the two-way comparison of MPOs were not as strong as for the GFE. We do not have any data from earlier rounds to compare. For the MPO, 80% picked the best deal.

When asked to make the three-way comparison between the two GFEs and an MPO, the results for round 3 were even better than for previous rounds. All but one of the subjects on Conditions 1 and 2 identified the best deal.

Table 12: Choosing the Best of the Loan Offers

Question	Percent of Sample			
	Round 1	Round 2	Round 3 Conditions 1 and 2	Round 3 Conditions 3 or 4
Comparison of Two Forms				
Which of the [GFE] estimates seems to be the better deal?				
Correct (the lowest settlement costs)	73%	90%	93%	100%
Incorrect	13%	3%	---	---
Don't know	2%	3%	3%	---
Other	11%	3%	3%	---
N	100%	100%	100%	100%
	(45)	(30)	(29)	(15)

3 How Successful Are the Forms in Meeting HUD Goals?

Question	Percent of Sample		Round 3 Conditions 1 and 2	Round 3 Conditions 3 or 4
	Round 1	Round 2		
Which [GFE] would you choose?				
Correct (the lowest settlement costs)	76%	86%	90%	87%
Incorrect	12%	7%	---	---
Don't know	5%	7%	3%	7%
Other	7%	--	7%	7%
N	100%	100%	100%	100%
	(41)	(29)	(29)	(15)
Which of the [MPO] estimates seems to be the better deal?				
Correct (the lowest settlement costs)				80%
Incorrect				13%
Don't know				---
Other				7%
N				100%
				(15)
Which [MPO] would you choose?				
Correct (the lowest settlement costs)				80%
Incorrect				13%
Don't know				---
Other				7%
N				100%
				(15)
Comparison of Three Forms				
Which settlement estimate was the lowest of the three that you have?				
Correct (the lowest settlement costs)	86%	93%	96%	
Incorrect	9%	3%	---	
Don't know	2%	3%	4%	
Other	2%	--	--	
N	100%	100%	100%	
	(44)	(30)	(28)	
Which offer would you choose?				
Correct (the lowest settlement costs)	75%	90%	82%	
Incorrect	11%	3%	7%	
Don't know	2%	7%	4%	
Other	11%	--	7%	
N	100%	100%	100%	
	(44)	(30)	(28)	

Goal 2: Distinguish Items Homebuyers Can Shop for

Related to the issue of encouraging homebuyers to shop for the best mortgage terms, HUD wants the consumer to understand which of the items on the GFE or MPO they can arrange themselves rather than going through the lender or broker. When we developed the GFE, we included charges in two categories on separate lines: charges for items that the lender or broker provides and charges for items that homebuyers can shop for themselves. We asked subjects to tell us the difference between these two categories. Subjects did not always understand this question and sometimes discussed specific differences between the items listed within the category, such as an appraisal, rather than the differences between the categories themselves.

What we did: We asked subjects to tell us the difference between the items in category 2 and category 4 in the breakdown of charges on page two.

Results: Only 50% of subjects understood that the difference between the categories was that they could shop for some items or use the lender or broker's providers. To be included as having a correct answer for this question, the subject had to generate the correct answer with no help from the testers. Most of those who gave incorrect answers were focused on the specific charges within the categories rather than the categories themselves.

Table 13. Distinguishing Items You Can Shop For

Question	Percent of Sample
What is the difference between items 2 and 4 on the GFE?	
Correct (you can shop for those in 4)	50%
Incorrect	10%
Don't know	20%
Other	20%
N	100% (30)

Goal 3: Make Basis Costs Clear

Another important goal for the new mortgage forms was to make the costs for the loan and the settlement clear to borrowers. A summary table was included on the first page of both the GFE and MPO that showed the basic costs, including: the loan amount, the interest rate, the monthly payment and interest, and the settlement charges. We asked subjects questions about the terms to be sure that they could find them easily.

What we did: The summary of loan terms included the interest rate, monthly payment, and total estimated settlement charges on the first page. We asked subjects if they could identify these items.

Results: Subjects could identify the basic costs in the third round (Table 14). Over 90% of the subjects were able to identify every cost that we asked them about.

Table 14. Identifying Basic Costs from the Summary Table on Page 1

Question	Percent of Sample
What is the interest rate for this mortgage? Correct (7.5%) Incorrect N	100% -- 100% (30)
What is your monthly payment? Correct (\$699.21) Incorrect Don't know N	93% 3% 3% 100% (30)
What is the estimate of the total settlement charges? (GFE) Correct Incorrect N	97% 3% 100% (30)
What is the estimate of the total settlement charges? (MPO) Correct Incorrect N	93% 7% 100% (30)

Goal 4: Show Yield Spread Premium and Discounts to Borrowers

HUD wants homebuyers to understand the charges or discounts that lenders or brokers may provide depending upon the interest rate. For round 3 the format for presenting this information was changed significantly. Instead of showing points or the yield spread premium on page 2 as a calculation that summed to a total origination charge, we added two sections on the third page of the GFE that showed the "Yield Spread Premium (YSP)" and "Discount Points." These numbers were included implicitly in the service charge on page 2, but the actual calculation was not shown.

YSP and Discount Points

What we did: We asked subjects to paraphrase, in their own words, the intended message in both of these sections. We allowed subjects to read this section during the thinkaloud portion of the testing and then during the direct questioning, we asked them to paraphrase what was written under Yield Spread Premium and Discount Points.

Results: The percentage of subjects who fully understood what Yield Spread Premium meant, at 3%, was extremely low (Table 15). The one subject who seemed to understand it said:

- *A smaller closing fee will make a higher payment.*

A few others had some understanding:

- *The opposite of discount points, you pay less at closing in return for higher interest rate and lower payment.*
- *Cost for the broker.*
- *If you didn't want to pay down payment or closing costs, you could roll it into loan.*

Most did not have any idea with the Yield Spread Premium was:

- *Confusing. Can't find on page 2.*
- *Gets a bit confusing for a first time buyer. Sounds like gibberish.*
- *Sounds like you are going to pay points.*
- *Talks about the service charge, but it is more than \$2,000. Really don't know.*

Table 15. Paraphrasing of Yield Spread Premium and Discount Points

Results of Paraphrasing	Percent of Sample	
	YSP	Discount Points
Understood the basic meaning	3%	30%
Has some understanding	23%	23%
Had no idea about the meaning	73%	47%
N	100% (30)	100% (30)

Subjects did slightly better understanding the meaning of Discount Points, yet only 30% had a full understanding or had only minor questions. Some examples of those who understood it is:

- *A fee you pay in advance to the lender that would lower the interest rate, which in turn would lower the monthly payment*
- *If I want to put down x amount of dollars in exchange for lower interest rate, I can do it.*

- *The lending institution has a fee you pay them in return for a lower interest over the life of the loan.*

Some subjects had some understanding, but still were not completely sure:

- *You get a discount point if you pay the lender a certain amount of money.*
- *Confusing to me, initial reaction from discount points are a fee to a lender.*
- *If you want to pay for points down, you could, but it is optional.*

The largest group of subjects did not have any understanding of points:

- *Not sure I know what discount point means*
- *I read it, but didn't understand it. Felt it didn't explain anything.*
- *It is zero because it is already included in the charge on page 2.*
- *Seems they are going to charge you for the life of your loan. Not an additional charge.*
- *Whatever you're charging is included.*

Our Service Charge

What we did: We asked subjects during the direct questioning portion of the testing what "our service charge" meant to them.

Results: Table 16 shows that the majority of subjects did correctly answer the question; however, almost one third did not know what the service charge was.

Table 16. Understanding "Our Service Charge"

Question	Percent of Sample
What does "our service charge" mean to you?	
Processing of the loan	70%
Other incorrect response	10%
Not sure or don't know	20%
	100%
N	(30)

Goal 5: Make Tolerances to HUD-1 Clear

HUD has proposed new rules under RESPA where certain charges to the borrower can change at settlement and others cannot. One of the goals of the forms design is to make these tolerances clear to the borrower. This area did not work very well in Round 3 of the testing.

GFE

What we did: On both the GFE and the MPO, the tolerances were listed below each of the settlement charges on page 2 of the forms. There was a separate section on each form

that listed what charges could change and to what extent. We asked subjects direct questions about the tolerances.

Results: Table 17 shows that in Round 3, slightly more than half of the subjects were able to correctly answer questions about each of the tolerances for most of the charges on the GFE. This was a significant decrease in performance from Round 2. When questioned about which charges should remain the same at settlement as they are on the GFE, only 2 people (7%) clarified that the service charge will remain the same only after the interest rate is locked. Forty percent answered the "service charge," but did not clarify that a person would have to lock in. Subjects had the most trouble identifying all seven of the charges that can change at settlement (37%), but most subjects were able to identify at least some of the charges that can change.

Table 17. Identifying Tolerances on GFE for Round 3

Tolerances in Round 3	Number Identifying Charge	Percent of Sample
Which charges should remain the same at settlement as they are on this [GFE]?		
Mentioned "service charge" and adds, "after you lock in your interest rate." (Correct)	2	7%
Mentioned "service charge" and does not mention the interest rate (Correct)	12	40%
Which charges, when added together, cannot increase more than 10%?		
Mentioned all three correct charges	17	57%
Mentioned required services that we select	21	70%
Mentioned title services and lender's title insurance	21	70%
Mentioned required services that you can shop for	18	60%
Which charges can change more than 10% from the way they are on this [GFE]?		
Mentioned all seven correct charges	11	37%
Mentioned title services and lender's title insurance	14	47%
Mentioned required third party services that you can shop for	12	40%
Mentioned taxes and fees	19	63%
Mentioned reserves or escrow	20	67%
Mentioned daily interest charges	20	67%
Mentioned homeowner's insurance	19	63%
Mentioned optional owner's title insurance	16	53%
N		100% (30)

MPO

What we did: On both the GFE and the MPO, the tolerances were listed below each of the settlement charges on page 2 of the forms. There was a separate section on each form that listed what charges could change and to what extent. We asked subjects direct questions about the tolerances.

Results: Table 18 shows that in Round 3 of testing, only some of the subjects were able to correctly answer questions about the MPO tolerances. Performance decreased significantly from Round 2. Fifty percent of the subjects correctly indicated that the Mortgage Package Offer cannot increase at settlement. Only 17% noted that the Charge or Credit for Your Points cannot increase after locking in the interest rate while one subject said the Charge or Credit for Points but did not mention locking in the interest rate.

Table 18. Identifying Tolerances on MPO for Round 3

Question	Number Identifying Charge	Percent of Sample
Which charges cannot increase at settlement from the way they are on this form [MPO]?		
Mortgage package offer	15	50%
Charge or Credit for Your Points (mentions after you lock in the interest rate)	5	17%
Charge or Credit for Your Points (does not mention locking in the interest rate)	1	3%
N		100% (30)

Goal 6: Clearly Convey Prepayment Penalties and Balloon Payments

Another HUD goal is that consumers will be able to easily identify whether their loan has a prepayment penalty or a balloon payment. Both forms had boxes on the front of page 1 that explicitly listed whether the loan offered had a prepayment penalty and/or a balloon payment.

What we did: We asked subjects directly if the loan had a prepayment penalty and if the loan had a balloon payment.

Results: The GFE and MPO were both overwhelmingly successful in conveying information about prepayment penalties and balloon payments. Table 19 shows that in Round 3 of testing, most subjects were able to correctly answer questions about whether the loan had a prepayment penalty (87%) and whether the loan had a balloon payment (93%). Only 14% said they didn't know or answered incorrectly when asked if the loan

has a prepayment penalty. Only six percent answered incorrectly or gave a different answer when asked if the loan had a balloon payment.

Table 19. Identifying Prepayment Penalties and Balloon Payments

Question	Percent of Sample
Does the loan have a prepayment penalty?	
Correct (the lowest settlement costs)	87%
Incorrect	7%
Don't know	7%
N	100% (30)
Does the loan have a balloon payment?	
Correct (the lowest settlement costs)	93%
Incorrect	3%
Other	3%
N	100% (30)

Goal 7: Provide a Crosswalk from the Estimates from the GFE and MPO to the HUD-1 Settlement Statement

One of the current problems that HUD is trying to change with the proposed rule is that settlement charges are frequently more than the estimates homebuyers receive. Homebuyers can be surprised at settlement with additional charges they are not expecting. Establishing tolerances is one way of solving this problem, but homebuyers need to know when items have changed. Because the HUD-1 is not parallel to the order of information in the GFE and MPO, we developed a crosswalk from the GFE to the HUD-1 settlement statement and from the MPO to the HUD-1 settlement statement. We tested three aspects of the crosswalks:

- Can homebuyers correctly fill in the information from the GFE or MPO on the crosswalk?
- Can homebuyers correctly fill in the information from the HUD-1 on the crosswalk?
- Can homebuyers find a discrepancy in the cost if the forms are filled in correctly?

GFE Crosswalk Results

Can homebuyers correctly fill in the information from the GFE on the crosswalk?

The first task for subjects was to fill in the numbers from the GFE on the crosswalk in the correct locations. Subjects showed wide variation in their success with different parts of the form.

Within the GFE Crosswalk, Table 1 was particularly confusing for subjects. One-third of the subjects were confused about the fundamental purpose of this table. A few subjects understood the purpose of the table, but could not find what figures to include. The specific types of items that gave the subjects trouble were those that needed to be entered in different parts of the crosswalk depending upon who provided the service.

Subjects were supposed to enter two items in Table 1 that would then guide them to where to put the items in Tables 2, 3 and 4. Few subjects did this correctly. Only 47% of the subjects put the title insurance figure in the correct place, and only 20% put the survey figure in the right place. A third of the subjects also put irrelevant items in Table 1.

Table 20. Percent of Subjects Filling in the Information from the GFE in Table 1 of the Crosswalk

Actions by Subjects in Table 1 of the GFE Crosswalk	Percent of Sample
Put title insurance figure in correct place	47%
Put survey figure in correct place	20%
Put other irrelevant items in Table 1	33%
N	100% (15)

The Helpful Hints section proved to be unhelpful for most of the subjects and did not help to clarify their confusion.

Subjects also had a lot of trouble filling out the rest of the tables on the GFE Crosswalk, including Tables 2, 3, and 4, predominately because they had had a fundamental problem reading and understanding the directions on page 1, the first table, and the helpful hints. The first table should have alerted subjects on where to place certain figures based on who arranged for the service. Because most subjects did not understand Table 1, subjects showed a wide variation in being able to fill out the rest of the tables correctly.

Subjects did relatively better in completing the information in Table 2 compared with the rest of the crosswalk, but the results were not as good as for Round 2.

Table 21. Percent of Subjects Filling in the Information from the GFE in Table 2 of the Crosswalk

Items That Cannot Increase at Settlement	Percent Correct	
	Round 2	Round 3
1. Our service charge	87%	73%
N	15	15

For table 2 in the crosswalk, some of the items were filled in correctly by a high percentage of subjects and some were less successful. The items that required Table 1 to be filled in correctly in order to enter the information in Table 2 tended to be a problem for the subjects. If they did not fill in Table 1 correctly they missed it in table 2. This was true for the *Title services and lender's title insurance* and the *Required services you can shop for*.

Table 22. Percent of Subjects Filling in the Information from the GFE in Table 3 of the Crosswalk

Items That Cannot Increase More Than 10% at Settlement	Percent Correct	
	Round 2	Round 3
2. Required services that we select		
Appraisal	n/a	80%
Credit Report	n/a	73%
Tax Service	n/a	73%
3. Title services and lender's title insurance	80%	53%
4. Required services you can shop for	33%	53%
N	15	15

The results for table 4 of the crosswalk were similar. Items that required an understanding of table 1 had a lower percentage of subjects filling in Table 4 correctly.

Table 23. Percent of Subjects Filling in the Information from the GFE in Table 4 of the Crosswalk

Items That Can Change at Settlement	Percent Correct	
	Round 2	Round 3
3. Title services and lender's title insurance	13%	60%
4. Required services you can shop for	67%	40%
5. Taxes and fees		60%
6. Reserves or escrow		60%
7. Daily interest charges	73%	47%
8. Homeowner's insurance	100%	67%
9. Optional owner's title insurance	100%	67%
N	15	15

Can homebuyers correctly fill in the information from the HUD-1 on the crosswalk?

The next task for the subjects was to enter the information from the sample HUD-1 on the crosswalk. As with the GFE, many items were not very easy for subjects to fill in correctly because they had not understood Table 1.

Subjects had difficulty with the same items that we already mentioned from the GFE: those that had to be put in different places depending upon who provided the service. They also had another difficulty. Some sections of the HUD-1 list various services that should be placed in different sections of the crosswalk depending upon the type of charge. Subjects could not tell where charges should go based on the label in the HUD-1. Modification of the HUD-1 to have it match the crosswalk would aid in a solution to this problem.

Filling in Table 2 was fairly successful for some items. One item—the loan origination fee— was completed correctly by 80% of subjects (Table 24). The other fees did not have such high percentages, although the percentages for the lenders fees were higher for Round 3 compared with Round 2.

Table 24. Percent of Subjects Filling in the Information from the HUD-1 in Table 2 of the Crosswalk

Items That Can Cannot Increase at Settlement	Percent Correct	
	Round 2	Round 3
Loan origination fee (801)	87%	80%
Other lender fees (800-899)	27%	
Underwriting fee		67%
Loan processing fee		47%
N	15	15

For the second table in the crosswalk, few subjects filled in very many of the items correctly. Many of the items are difficult to find on the HUD-1 and subjects searched for them without success. Overall, the Round 3 results are somewhat better than the Round 2 results, but are still not satisfactory.

Table 25. Percent of Subjects Filling in the Information from the HUD-1 in Table 3 of the Crosswalk

Items That Can Cannot Increase More Than 10% at Settlement	Percent Correct	
	Round 2	Round 3
Required services that we select (803-899)		
Appraisal		53%
Credit Report		33%
Tax Service		40%
Additional settlement charges (1300-1399)		13%
Pest Inspection		
Title Services (1100-1199)	47%	
Settlement fee		47%
Abstract or title search		47%
Title examination		47%
Lender's title insurance (1109)		47%
Other charges	36%	67%
N	15	15

The last table in the crosswalk also had some items that improved somewhat in Round 3 over the results in Round 2. A larger percentage of subjects were able to find the title charges and the survey. For some of the other items, such as the interest, hazard insurance and owner's coverage, the results were not as good for Round 3 compared with Round 2.

Table 26. Percent of Subjects Filling in the Information from the HUD-1 in Table 4 of the Crosswalk

Items That Can Change at Settlement	Percent Correct	
	Round 2	Round 3
Title Charges (1100-1199))	64%	73%
Required third party services you can shop for (803-899, 902, 1300-1399)	14%	
Survey		27%
Government recording and transfer charges (1200-1299)		53%
Recording fees		53%
City/county tax		53%
State stamp		
Reserves deposited with the lender (1000-1099)		60%
Hazard insurance		60%
County property tax	93%	60%
Interest (901)	93%	60%
Hazard insurance (903)	86%	60%
Owner's coverage (1110)		
N	15	15

Can homebuyers find a discrepancy in the cost if the forms are filled in correctly?

For the last section of the testing, we gave the subjects a crosswalk that was filled out correctly in order to see if they could find the discrepancies. Table 28 shows that most subjects found the discrepancies but the accuracy was down from Round 2 on all discrepancies. Subjects were also asked if any of the items had increased more than they were allowed to. Only 40% of subjects were able to answer correctly indicating that they were not really using or understanding the Crosswalk in the way that it was designed, as a tool to help them.

Table 27. Use of Crosswalk to Identify Increases on the HUD-1

Item	Percent Correct	
	Round 2	Round 3
Noticed charges are different from the GFE to the HUD-1	100%	80%
Noticed Government Taxes increased by \$50	87%	60%
Noticed Pest Inspection now included for \$50	100%	73%
Knew that the increases were not higher than allowed	n/a	40%
N	15	15

MPO Crosswalk Results

This was the first time that an MPO crosswalk was tested. In the previous testing, only the GFE crosswalk was used. The MPO crosswalk is considerably shorter and less complicated than the GFE crosswalk. These results cannot be compared with others from previous rounds.

Can homebuyers correctly fill in the information from the MPO on the crosswalk?

The first task for subjects was to fill in the numbers from the MPO on the crosswalk in the correct locations. Subjects showed wide variation in their success with different parts of the form.

The Helpful Hints section was not problematic for subjects. In fact, many subjects commented positively on this section.

Table 28 shows that subjects had little trouble filling out the correct amounts on the MPO Crosswalk. Subjects were most often confused about what to do with the negative sign that appeared on the MPO and what to do with it in the "Charge or Credit for Your Points" section of the first table. This often resulted in subjects subtotaling incorrectly based on how they filled out the "Charge or Credit for Your Points."

Table 28. Items from MPO Entered Correctly on the Crosswalk

Items from MPO on Crosswalk	Percent Entered Correctly on Crosswalk
1. Charge for your guaranteed mortgage package	100%
2. Charge or credit for your points	60%
Entered - \$2,250	60%
Entered +\$2,250	33%
Left it blank	7%
3. Reserves or escrow	93%
4. Daily interest charges	93%
5. Homeowner's insurance	100%
6. Optional owner's title insurance	100%
Total Estimated Settlement Charges	67%
N	15

Can homebuyers correctly fill in the information from the HUD-1 on the crosswalk?

The next task for the subjects was to enter the information from the sample HUD-1 on the crosswalk. As with the MPO, most items were fairly easy for subjects to fill in correctly.

Subjects had difficulty with the same items that they had from the MPO. Table 29 shows that subjects were most often confused over what to do with the negative sign that

appeared on the HUD-1 and what to do with it in the "Charge or Credit for Your Points" section of the first table. This often resulted in subjects subtotalling incorrectly based on how they filled out the "Charge or Credit for Your Points."

Table 29. Items from HUD-1 Entered Correctly on the MPO Crosswalk

Items from HUD-1 on Crosswalk	Percent Entered Correctly on Crosswalk
1. 801 Loan origination fee	93%
2. 808 Charge or credit for your points	73%
Entered - \$2,250	73%
Entered +\$2,250	20%
Left it blank	7%
3. 1000-1099 Reserves deposited with the Lender	93%
4. 901 Interest from	100%
5. Hazard insurance	87%
6. Owner's coverage	100%
Total Estimated Settlement Charges	40%
N	15

Can homebuyers find a discrepancy in the cost if the forms are filled in correctly?

For the last section of the testing, we gave the subjects a crosswalk that was filled out correctly in order to see if they could find the discrepancies. All subjects found that there was a discrepancy with no problem; however, subjects had some problems specifying which charges had changed. Subjects were also asked if any of the items had increased more than they were allowed to. Only 46% of subjects were able to answer correctly indicating that they did not understand the concept of the tolerances completely.

Table 30. Use of Crosswalk to Identify Increases on the HUD-1

Item	Percent
Noticed charges are different from the MPO to the HUD-1	100%
Noticed Hazard Insurance increased by \$50	80%
Noticed Pest Inspection now included for \$50	73%
Knew that the increases were not higher than allowed	46%
N	15

4 How Did Subjects React to the Forms?

This section presents the results of issues from Round 3 testing and is divided first by the form tested, and then within each form, the results are discussed by section within the forms.

Good Faith Estimate (GFE)

About Your GFE

Subjects understood the "About Your GFE" section of the GFE. All 45 subjects read or skimmed the "About Your GFE" section. Most of the subjects had no problems with the section and understood the overall purpose as well as the detail of this section.

Summary of Your Loan Terms for This Estimate

All forty-five subjects read or scanned the "Summary of Your Loan Terms for This Estimate" section. A few subjects had some problems with some of the terms used in this section including the terms "balloon payment," "prepayment penalty" and "rate lock period." Seven percent of the subjects who viewed the GFE noted difficulty with the term "balloon payment," while 4% expressed difficulty with the term "prepayment penalty." Another 4% had difficulty with the term "rate lock period."

Subjects were asked if they thought the interest rate would vary over the term of the loan to assess if subjects understood that the GFE example was for a fixed price loan and what that meant. Table 32 shows that most subjects (77%) were able to understand that this was a fixed price loan that would not vary over the term of the loan. This finding has been fairly consistent across the three rounds of testing.

Table 32. Fixed vs. Adjustable Rate Mortgage

Question	Percent of Sample		
	Round 1	Round 2	Round 3
Will this interest rate vary over the term of the loan?			
Correct (no)	73%	79%	77%
Incorrect (yes)	9%	3%	13%
Don't know	4%	4%	3%
Other	13%	14%	7%
N	100%	100%	100%
	(45)	(29)	(30)

A new item included in the summary table was the rate lock period. Subjects were asked how much time they have between the time they lock in the interest rate and when they must go to settlement. The correct answer was 60 days, and Table 33 shows that most subjects (83%) answered correctly.

Table 33. Rate Lock Period

Question	Percent of Sample
How much time do you have between the time you lock in your interest rate and when you must go to settlement?	
Correct (60 days)	83%
Incorrect	10%
Don't know	7%
N	100% (30)

Understanding Your Estimated Settlement Charges

In general, few subjects had difficulty with the second page of the form that lists the settlement charges. The items that caused more difficulty were "2. required services that we select," "4. required services that you select," and "7. daily interest charges." Almost a fifth (18%) of the subjects were confused by section 2, "required services that we select." Many of these subjects were confused by the example rather than the category. Forty-three percent of subjects who encountered problems with this section were unfamiliar with the term "survey."

Eleven percent of subjects were confused by section 4, "required services that you can shop for." We asked subjects to tell us the difference between items in section 2, "required services that we select" and section 4, "required services that you select." Nearly one-third (31%) of all subjects who encountered problems understanding sections 2 and 4 were unsure of the difference between the two categories.

Additionally, 16% of subjects were confused by section 7, "daily interest charges." Subjects appeared to have a difficult time grasping the concepts of being charged daily interest for a mortgage loan.

Subjects were asked if they were to close on a different date, if the total amount listed for the interest charges would change. Subjects tended to understand that the amount would change but had trouble determining if the amount would increase or decrease. Table 34 shows that about 70% were able to answer correctly that the interest charges would change by saying "yes." This was an increase in performance from Round 2. Subjects had a more difficult time answering the next question about whether the amount would go up or down. A correct answer was that it would go up. Only 41% of subjects answered correctly. This percentage was very similar to Round 2.

Table 34. Per Diem Interest Charges on the GFE

Question	Percent of Sample		
	Round 1	Round 2	Round 3
If you [close on different date], would the total amount listed change?			
Correct (yes)	74%	60%	70%
Incorrect (no)	12%	27%	17%
Don't know	9%	13%	13%
Other	5%	--	--
N	100%	100%	100%
	(43)	(30)	(30)
Would it go up or down? [with earlier closing date]			
Correct (up)	24%	40%	41%
Incorrect (down)	47%	55%	41%
Don't know	16%	5%	15%
Other	13%	--	4%
N	100%	100%	100%
	(38)	(20)	(27)

Charges That Can Change

Subjects generally understood the "Charges That Can Change" section of the GFE. Most of the subjects (66%) who looked at the "Charges That Can Change" section appeared to have no problems understanding this section. Twenty percent (9) of subjects did not understand this section very well; of these subjects, two were confused over which charges can change and which cannot. Five subjects (11%) skipped this section.

In the previous chapter we reported results showing that the subjects were not always able to identify the tolerances correctly.

Discount Points and Yield Spread Premium

In the previous section we presented the results of the paraphrasing of these sections. In general, subjects found it very difficult to understand these two sections. They did not understand how these two sections were related to the other settlement charges.

Understanding the Trade-off Between the Charges for Your Loan and Interest Rate

Most subjects understood the section on "Understanding the Trade-off Between the Charges for Your Loan and the Interest Rate," although some subjects had trouble with the concept presented. Of the subjects that viewed the GFE, 32 subjects had no problems with the "Understanding the Trade-off Between the Charges for Your Loan and Interest

Rate" section, and three subjects skipped this section altogether. Six subjects had major problems with this section. Several thought this section was showing them other loans that were available to them; others were unfamiliar with the term "settlement charges;" and some were unable to understand the inverse relationship between closing cost and monthly interest charges.

Subjects were asked if they paid more money in cash at settlement, would the monthly payment go up or down. A correct answer was that the payment would go down. Eighty-six percent of subjects were able to answer this question correctly, even though this was down slightly from Round 2 (Table 35). Some subjects thought that these were other loans; others were unfamiliar with the term "settlement charges;" and others were unable to understand the inverse relationship between closing costs and monthly interest charges.

Table 35. Understanding the Tradeoff Table

Question	Percent of Sample
If you pay more money in cash at settlement, would your monthly [payment] go up or down?	
Correct (go down)	86%
Incorrect (go up)	14%
Incorrect (stay the same)	--
Don't know	--
Other	--
N	100%
	(29)

Overall Comments on the GFE

Near the end of each testing session, subjects were asked direct questions about their overall feelings about the form, their likes and dislikes, and were given a chance to make suggestions about the GFE.

Overall feelings

Most subjects felt comfortable with the GFE form. Subjects were asked how comfortable or uncomfortable they felt with the GFE form. In Round 3 testing, 74% said they felt "comfortable" while 26% said they felt "uncomfortable." The percentage indicating they felt comfortable was up from Round 2 testing.

Most subjects thought the GFE provided the right information for them. Subjects were also asked if they thought the GFE form provides the right information for them. The majority of subjects (89%) said they thought the form provided the right information, while only 12% said either they didn't think the form provided the right information or did not know.

Most subjects thought the GFE was written at the correct level for them. Subjects were asked if they felt the GFE was written at the right level for them. Most subjects (88%) said they felt the GFE was written at the right level, while 13% said it was too difficult.

Likes and Dislikes

Subjects found the trade-off table on page 3 and the page 2 breakdown of charges to be the most useful features. Subjects were also asked what they found to be the most useful information in the GFE. Just over a quarter (28%) said the trade-off table on page 3 while a quarter (25%) said the breakdown of charges on page 2 and 13% said the summary table on page 1.

Subjects liked the clear lay out of the form the most. When subjects were asked to name what they liked most about the GFE, 31% said it was laid out clearly, while 17% said the breakdown of charges on page 2.

Subjects did not like the section on "yield spread premium." Comparatively, subjects were also asked what they disliked the most about the form. About a fifth (21%) indicated they disliked the section on "yield spread premium," while 9% said the "discount points" section and 6% said the "charges that can change" section.

Suggestions

Subjects suggested clarifying the "yield spread premium." In Round 3 testing, 16% of the subject suggested clarifying the term "yield spread premium" and 9% suggested clarifying discount points.

GFE Recommendations

Based on all the results for the Round 3 testing, we have recommendations for improving the GFE. These are organized by section of the form.

About Your GFE

- Leave in the paragraph about shopping in the "About Your GFE" section. Subjects' views appear to be affected by reading the form. Some of the participants who might not have tended to shop were influenced to change their opinion.

Summary of Your Loan Terms For This Estimate

- Use the term "service charge" rather than "loan origination fee" in the Summary of Your Loan Terms for this Estimate. The term, service charge, is understood by more subjects than loan origination fee.

Charges That Can Change

- Improve the presentation of items that cannot change at settlement in the "Charges that Can Change" section. Aspects of the format used in Round 2 could be used since these worked well.

Discount Points and Yield Spread Premium

- Improve the explanation on "discount points" and "yield spread premium" or do not include them on the form.

Mortgage Package Offer (MPO)

About Your MPO

Most of the subjects that read or skimmed this section had no problems with it. Some subjects (4) indicated that they liked that this section made it clear that better offers might be available through other banks. One subject misread the text and believed that it meant that the MPO guaranteed the lowest cost loan.

Summary of Your Loan Terms for This Estimate

This section is the same as on the GFE. Generally the section is well understood, as discussed under the GFE results. Some subjects had trouble with some of the terms used, particularly the terms "balloon payment," "prepayment penalty," and "rate lock period."

Some subjects had trouble understanding that the "charge or credit for your points" would be included in their total settlement charges. Only 63% were able to correctly answer the question relating to this part during the testing (Table 36).

Table 36. Charge or Credit for Your Points Included in Settlement Charges on the MPO

Question	Percent of Sample
A charge is listed as "Charge or Credit for Your Points." Is this charge included in your total charges at settlement?	
Correct (yes)	63%
Incorrect (no)	20%
Don't know	13%
Other	3%
N	100% (30)

Understanding Your Settlement Charges

Most subjects (28) had no major problems with the "Understanding Your Settlement Charges" section but some subjects had trouble with the concept related to the "Charge or Credit for Your Points" section because of the negative sign. Some subjects (9) commented that they wanted the charges itemized or preferred the breakdowns on the GFE.

Some subjects (8) had trouble with concepts related to the "Charge or Credit for Your Points" section. Of these, six said they were confused by the negative \$2,250 figure while five of the eight indicated they were unclear as to whether this figure represented a charge or credit.

Charges That Can Change

Most subjects (27) understood this section, although 10 of these subjects skimmed the section very quickly. About 8 subjects skipped this section altogether. Of those who read or skimmed the section, some (7) subjects had major problems. Two people found the guaranteed mortgage package concept confusing. One felt the section was “ambiguous” and was not comfortable with the explanations provided.

Services That May Be in the Package

At most all subjects (40) had no problems with this section or had only minor questions (for example, “Why wouldn’t everyone want a pest inspection?”) A few subjects (3) skipped this section altogether. Of those who did have a problem with the section, three subjects said they did not understand why the section said services “may be” included in the package. Subjects insisted that services either were included or they were not.

Understanding the Trade-off Between the Charges for Your Loan and Your Interest Rate

This section is exactly the same as on the GFE and the same results apply. Most subjects understood this section.

Accepting This Mortgage Package Offer

Many subjects (18) found this section to be the most confusing section of the MPO and had a number of different problems with it including confusion over the fee, the deadlines, the calculation box, and the negative sign in the “charge or credit for your points” section. Only 22 subjects did not have any problems with this section. Some (6) subjects skipped this or read very little of this section. Four subjects did not understand what the fee was for, and wondered whether it was in addition to other charges, or whether they would lose it if they did not accept the offer. Two subjects did not understand the significance of the 5-day deadline or thought they only had five days to accept the offer. Four subjects did not use the calculation box to help them calculate settlement charges for payment of points. Three subjects were confused by the minus sign in the “charge or credit for your points” and were unsure how to interpret it.

Subjects were asked if they thought they could accept the terms of the MPO without locking in the interest rate (Table 37). Only half (50%) of the subjects were able to answer this correctly which was down significantly from Round 2. It is possible that some subjects misinterpreted this question thinking it was an opinion question rather than a factual question based on the information in the section.

In addition, subjects were also asked how long they have to think over the terms of the MPO. Again, subjects did not answer correctly very often (only 13% answered correctly) and this was down significantly from Round 2. The dates need to be made clearer so that homebuyers can pick out this information easily. The dates were clearer on earlier versions of the MPO.

Table 37. Accepting the Offer on the MPO

Question	Percent of Sample		
	Round 1	Round 2	Round 3
Can you accept the terms of this MPO without locking in the interest rate?			
Correct (yes)	75%	80%	50%
Incorrect (no)	18%	17%	40%
Don't know	8%	3%	10%
N	100%	100%	100%
	(40)	(30)	(30)
How long do you have to think over the terms of this MPO?			
Correct	67%	66%	13%
Incorrect	15%	10%	43%
Don't know or other	18%	24%	43%
N	100%	100%	100%
	(39)	(29)	(30)

When subjects were asked by when they have to lock in the interest rate, most were able to answer correctly (Table 38).

Table 38. Locking in the Offer on the MPO

Question	Percent of Sample Round 3
If you do not lock in your interest rate now, by when must you lock in the rate?	
Correct (5 days before settlement)	70%
Incorrect	10%
Don't know	7%
Other	13%
N	100%
	(30)

A new box was included at the end of the acceptance section for subject to calculate what the charge of credit for their points would be if the interest rate changed. When we asked subjects a question about what the points would be if a homebuyer was now charged one and a half points on the loan, most could not answer correctly (Table 39).

Table 39. Calculating the Charge or Credit for Points on the MPO

Question	Percent of Sample Round 3
What would your new charge or credit for your points be if you were now charged one and a half (1.5) points?	
Correct (\$1,500) ¹	20%
Incorrect	13%
Don't know	43%
Other	23%
N	100%
	(30)

¹Of the 6 participants that got the right answer, only one used the box on the page.

An important issue for HUD is that homebuyers understand that receiving an MPO does **not** mean that they are approved for their mortgage application. A question was asked during the interview about whether the mortgage application would be automatically approved just because a person accepted the MPO. Table 40 shows that 80% of subjects understood that the MPO would still be based on information verification.

Table 40. Accepting the Offer and Approving the Application on the MPO

Question	Percent of Sample Round 3
What happens when you accept this MPO? Does it mean that your mortgage application is automatically approved?	
Correct (No, they need to verify)	80%
Incorrect (Yes)	10%
Don't know	7%
Other	3%
N	100%
	(30)

¹Of the 6 participants that got the right answer, only one used the box on the page.

Overall Comments on the MPO

Near the end of each testing session, subjects were asked direct questions about their overall feelings about the form, their likes and dislikes, and were given a chance to make suggestions about the MPO.

Overall feelings

Many subjects said they felt comfortable with the MPO form, but the percentage of people feeling comfortable decreased from Round 2. Subjects were asked how comfortable or uncomfortable they felt with the MPO form. In Round 3 testing, 64% said

they felt “comfortable” which was a decrease from Round 2. About 35% said they felt “uncomfortable,” or said they did not know or provided a different answer.

Most subjects said they thought the MPO form provides the right information for them. Subjects were also asked if they thought the MPO form provides the right information for them. The majority of subjects (79%) said they thought the form provided the right information, while 22% said either they did not think the form provided the right information, or that they did not know, or gave another answer. The positive response to the form providing the right information was down slightly from Round 2.

Most subjects felt the MPO form was written at the right level for them. Subjects were asked if they felt the MPO was written at the right level for them. Most subjects (88%) said they felt the MPO was written at the right level, while only 13% said it was too difficult. Results were very similar between Round 2 and Round 3 of testing.

Likes and Dislikes

Subjects said they found the “Understanding Your Settlement Charges” section on page 2 and the loan summary information on page 1 to be the most useful information on the form. Subjects were also asked what they found to be the most useful information in the MPO. A third of the subjects said the “Understanding Your Settlement Charges” on page 2 section, while a third said the loan summary on page 1, and 18% said the section on accepting this mortgage package offer on page 3.

Most subjects liked the breakdown of charges on page 2 the best. When subjects were asked to name what they liked most about the MPO, 38% mentioned the breakdown of charges on page 2, while 26% said the summary table on page 1. Another 26% indicated they liked the trade-off table the most, and 15% said what they liked most was that the form was “easy to understand” and pretty “self-explanatory.”

Most subjects did not mention something that they particularly disliked about the form. When subjects were asked what they disliked the most about the MPO, they mentioned only a few things. About 12% indicated they disliked not knowing what is included in the package, while 9% mentioned understanding the tradeoff section and 6% said the services included in the package section.

Suggestions

A few subjects suggested clarifying certain sections of the form. In Round 3 testing, 9% of the subject suggested clarifying the “points section,” 3% said clarifying the “tradeoff section,” and 3% said the form needed a more detailed breakdown of charges.

MPO Recommendations

About Your MPO

- Leave in the paragraph about shopping for the best loan in the “About Your MPO” section. As already stated in regard to the GFE, subjects’ views on whether to shop for the best loan appear to be affected by reading the form.

Understanding Your Settlement Charges

- Make sure that a negative charge or credit for your points can be shown clearly in the "Understanding Your Settlement Charges" section. The negatives must be presented clearly or the homebuyers will become confused about the total charges.

Charges That Can Change

- Use the format tested in Round 2 for the "Charges that Can Change" section. This section appeared to work more effectively in the previous testing.

Accepting This Mortgage Package Agreement

- Emphasize the fact that you can accept the offer without locking in the interest rate in the "Accepting This Mortgage Package Agreement" section.
- Make the time you have to consider the offer more prominent in the "Accepting This Mortgage Package Agreement" section.
- Eliminate the points calculation box for a new interest rate within the "Accepting This Mortgage Package Agreement" section.

GFE Crosswalk

In general, many subjects were confused by the GFE Crosswalk and were not able to complete it correctly.

Section 1

Subjects found the information presentation overwhelming. Two subjects had problems with the presentation of the information in Section 1 which covered "What is the purpose of this worksheet" and "How should you use the worksheet." These subjects commented that the crosswalk had "too much" information and "looked like a tax form."

Table 1

Subjects were confused about the purpose of the first table. Table 1 was included due to the problems that subjects had in the previous testing with trying to determine where charges should be included on the subsequent tables. However, the table did not seem to help with the problem. Five subjects were confused about the fundamental purpose of the first table. They were unable to determine what figures to enter, did not understand that they had a choice of service providers, or otherwise did not understand the purpose of the table.

Two subjects understood the purpose of the table, but could not find what figures to include.

Helpful Hints

Subjects were confused about the Helpful Hints section of the form. Some subjects did not read the helpful hints and then made the mistakes that the hints were trying to help them avoid. For the subjects who were generally confused about the crosswalk, the

Helpful Hints section did not help them understand what they had been confused about. One subject was confused by the series number referred to from the HUD-1 and even guessed that they might be dollar amounts.

Table 2

Subjects were confused about Table 2. Five subjects were fundamentally confused about how to use Table 2. They could not remember key points from the GFE, they did not understand that they could choose someone other than the lender for services, they did not understand how to read the charge for a service, or were otherwise confused.

Three subjects had trouble finding charges on the HUD-1. They had particular trouble with items in the 800-899 series and item 1199.

One subject had trouble with the term "Subtotal" and was not sure whether to calculate a subtotal or enter one from the GFE.

Table 3

Subjects had trouble understanding what information to put in the boxes on Table 3. Four subjects understood the purpose of the table, but had some trouble understanding what figures should go in each box. Three subjects were fundamentally confused and did not understand why charges might change or began to feel overwhelmed by the information.

One subject claimed that this table really helped "break things down."

Table 4

Subjects had a number of different issues with Table 4. Two subjects commented on the language in this table: one thought it was written at too high a level and another commented that it sounded "like tax forms."

Two subjects could not understand what figures to enter into this table.

One subject did not understand the difference between Table 3 and Table 4. One subject was generally overwhelmed and confused. One subject commented that this table was very clear and noted that the language matched that of the GFE.

GFE Crosswalk Recommendations

- Reconceptualize the GFE crosswalk and add more explanation about how to use it and fill it out.
- Find a different method for presenting the charges that can appear in more than one section.
- Move the Helpful Hints section up or find a different format for presenting them such as presenting the Helpful Hints along with the directions for how to use the worksheet.

MPO Crosswalk

Section 1

Some subjects had trouble with Section 1 because they did not initially see the tables the text referred to, which were on the second page. Two subjects were confused because initially they did not see the tables. Another subject was confused about the references to the left and right sides of the table. One subject did not understand how the left and right sides of the table would relate to each other. Another subject was generally confused.

Helpful Hints

Subjects liked the "Helpful Hints" section. No subjects had trouble with the Helpful Hints section. Subjects often commented positively on this section of the MPO Crosswalk. Two subjects said they like the inclusion of the helpful hints, while two others particularly liked having the hint about the series of numbers in the HUD-1. One subject mentioned the bullets as making the document easier to read. Another subject said the document seemed "straightforward." One subject commented negatively about the hint about series numbers and said that could be confusing to some people.

Charges That Cannot Increase at Settlement

Subjects had trouble with the "Charges That Cannot Increase at Settlement" section. Seven subjects had trouble with this section and some of the subjects had more than one problem. Four subjects either did not notice that they had to work with a negative number or were confused by calculating a negative number. Two subjects were confused by the subtotal and were not sure whether they had to calculate it or enter it from the MPO. Two subjects tried to work from left to right through the table and were confused. One did not understand that the table was divided into sections for the MPO and the HUD-1. One commented that they saw a "design flaw" with this section of the Crosswalk indicating that the table was confusing.

Subjects liked parts of this section. Two subjects liked that the lines "went in order" and matched those on the MPO. One of these two also liked that it was clear that the points were guaranteed. One subject said the terminology in the section was familiar, and another said the section looked easy to use.

Charges That May Vary Considerably from the MPO

Some subjects had trouble with multiple items in this section. Four of the subjects mentioned several things that they found confusing about this section. Two of the four forgot to include the pest inspection fee. The four subjects encountered various problems. One did not understand how to calculate the subtotal. Another did not understand what to enter for the daily interest charge. Another did not know where to enter hazard insurance. Another did not know whether to include item numbers from the HUD-1. One subject noted that the language did not always match up between the HUD-1 and MPO, for example hazard insurance versus homeowners insurance. Finally, one subject said he or she did not understand the term "loan origination fee."

MPO Crosswalk Recommendations

- Clarify the use of negative numbers; perhaps by including another hint.
- Change the boxes and subtotals to prevent numbers from being entered twice.

5 What Recommendations Do We Have About the Forms?

This section summarizes the recommendations for future revisions for each of the forms tested in Round 3. The recommendations for the GFE and MPO are broken down by section of the form.

GFE Recommendations

About Your GFE

- Leave in the paragraph about shopping in the "About Your GFE" section.

Summary of Your Loan Terms For This Estimate

- Use the term "service charge" rather than "loan origination fee" in the "Summary of Your Loan Terms for this Estimate"

Charges That Can Change

- Improve the presentation of items that cannot change at settlement in the "Charges that Can Change" section. Aspects of the format used in Round 2 could be used since these worked well.

Discount Points and Yield Spread Premium

- Improve the explanation on "discount points" and "yield spread premium."

MPO Recommendations

About Your MPO

- Leave in the paragraph about shopping for the best loan in the "About Your MPO" section.

Understanding Your Settlement Charges

- Make sure that a negative charge or credit for homebuyers' points can be shown clearly in the "Understanding Your Settlement Charges" section.

Charges That Can Change

- Use the format tested in Round 2 for the "Charges that Can Change" section.

Accepting This Mortgage Package Agreement

- Emphasize the fact that homebuyers can accept the offer without locking in the interest rate in the "Accepting This Mortgage Package Agreement" section.
- Make the time homebuyers have to consider the offer more prominent in the "Accepting This Mortgage Package Agreement" section.
- Eliminate the points calculation box for a new interest rate within the "Accepting This Mortgage Package Agreement" section.

GFE Crosswalk Recommendations

- Reconceptualize the GFE crosswalk and add more explanation about how to use it and fill it out.
- Find a different method for presenting the charges that can appear in more than one section.
- Move the "Helpful Hints" up or find a different format for presenting them such as presenting the helpful hints along with the directions for how to use the worksheet.

MPO Crosswalk Recommendations

- Clarify the use of negative numbers, perhaps by including another hint
- Change the boxes and subtotals to prevent numbers from being entered twice



Good Faith Estimate of Settlement Costs (GFE)

About Your GFE

What is a GFE? This GFE gives you an estimate of your settlement costs and loan terms if you get a mortgage loan from us.

How should you use this GFE to shop for the best loan? We cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should compare this GFE with those that you get from others. By comparing loan offers, you can shop for the best loan.

This loan is being offered by _____

Please call us with any questions at _____

Your name _____ SSN _____ - _____ - _____

This loan is for property at this address _____

This GFE is valid for 10 business days from this date _____

Keep this GFE to compare with your actual costs at settlement.

Summary of Your Loan Terms for This Estimate

Your Loan Details

Your loan amount will be:		\$
Your loan is	<input type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	%	% initially, then it will adjust. The interest rate adjustment will be based on the _____ index and can change up to _____ percentage points. Your first adjustment will occur in _____ (months or years)
Your loan term	years	years
Your monthly payment for principal, interest, and any mortgage insurance	\$	\$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$
Your rate lock period	_____ days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input type="checkbox"/> No	

The interest rate and monthly payment shown above can change until you lock in your interest rate.

Your Settlement Costs

Our Service Charge (see item 1 on page 2)	
Estimated Charges for All Other Settlement Services (see items 2-9 on page 2)	
Total Estimated Settlement Charges	\$

**Understanding
Your
Estimated
Settlement
Charges**

Your Estimated Settlement Charges

1. Our service charge This charge is for the services we provide when we process this loan for you.										
2. Required services that we select These charges are for services we require to complete your settlement. We will choose the providers of these services. <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 60%;">Service</th> <th style="width: 40%;">Cost</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>		Service	Cost							
Service	Cost									
3. Title services and lender's title insurance This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.										
4. Required services that you can shop for These charges are for other services that are required to complete your settlement. We can refer you to providers of these services or you can shop for them yourself. Our estimates for providing these services are below. <table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 60%;">Service</th> <th style="width: 40%;">Cost</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>		Service	Cost							
Service	Cost									
5. Taxes and fees This charge includes state and local taxes and fees.										
6. Reserves or escrow This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.										
7. Daily interest charges This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. For this loan, this amount is \$ _____ per day for _____ days (if your closing date is ____/____/____).										
8. Homeowner's insurance This charge is for the insurance you must buy for the property to protect from a loss, such as fire.										
9. Optional owner's title insurance This charge is for insurance you can choose to buy to protect yourself from title defects.										
Total Estimated Settlement Charges		\$								

**Charges That
Can Change**

The charges listed above are all part of the total estimated amount that you will have to pay at settlement. After you lock in your interest rate, the only charge that **cannot change** at settlement is **1. Our service charge**. Below we list which charges can **change** at settlement. Some of the charges can appear in more than one column, depending upon who chooses the provider of the service.

The sum of these charges cannot increase more than 10% at settlement:

- 2. Required services that we select
- 3. Title services and lender's title insurance (if we select them or you use providers referred by us)
- 4. Required services that you can shop for (if you use providers referred by us)

These charges can change at settlement:

- 3. Title services and lender's title insurance (if you choose them)
- 4. Required services that you can shop for (if you choose them)
- 5. Taxes and fees
- 6. Reserves or escrow
- 7. Daily interest rate charges
- 8. Homeowner's insurance
- 9. Optional owner's title insurance

Discount Points

The service charge shown on page 2 includes the charge shown here in return for your lower interest rate. Discount points are a fee to the lender so that you can pay a lower interest rate and lower monthly payments over the life of the loan. The amount shown here is already included in the charge on page 2 and is not a new or additional charge.	\$
--	----

Yield Spread Premium

The service charge shown on page 2 may have been reduced if you are paying a higher interest rate. The yield spread premium allows you to pay less at closing in return for paying a higher interest rate and higher monthly payments over the life of the loan. If the lender paid a yield spread premium to the broker, that amount is reported here. If the lender kept the yield spread premium, it does not have to be shown here. The amount shown here is already included in the charge on page 2 and is not a new or additional charge.	\$
--	----

Understanding the Trade-off Between the Charges for Your Loan and Your Interest Rate

	<i>The loan in this GFE</i>	<i>A loan with a lower interest rate</i>	<i>A loan with lower settlement costs</i>
Your loan amount	\$	\$	\$
Your interest rate	%	%	%
How much your monthly payment will be	\$	\$	\$
How much more or less in monthly payments from this GFE	No Change	You will pay \$ less every month	You will pay \$ more every month
How much more or less you will pay at settlement with this interest rate	No Change	Your lower interest rate will raise your settlement costs by \$	Your higher interest rate will lower your settlement costs by \$
How much your total estimated settlement charges will be	\$	\$	\$

We have offered you a particular interest rate and estimated settlement costs in this GFE. But, it is important that you see how this loan compares to others that you could choose.

- If you want to choose a loan with a **lower interest rate**, then you will have **higher settlement costs**.
- If you want to choose a loan with **lower settlement costs**, then you will have a **higher interest rate**.

The table above shows how the loan that we've offered you in this GFE compares to these different options. The loan in this GFE is in the first column. In the middle column is a loan with a lower interest rate. In the last column is a loan with lower settlement costs.

If you would like one of these options, you can ask for a new GFE.

If this loan offer is for an adjustable rate mortgage, the comparisons in the table are for the initial interest rate before any adjustments are made.



Mortgage Package Offer (MPO)

About Your MPO

What is an MPO? This MPO is an offer for a mortgage loan from us that includes:

- A guaranteed price for a package that includes most of the settlement services needed to get the loan.
- An interest rate and points that are guaranteed if you accept this offer and lock in by ____/____/____. Otherwise, they will float until you lock.
- An agreement that binds us to provide you the loan described in this document.

This MPO is based on your statements that your gross monthly income is \$ _____, the value of the property is \$ _____ and on a credit analysis that we conduct. We will verify your monthly income, the property value, your credit rating, and other information that you've provided to us.

How should you use this MPO to shop for the best loan? We cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should compare this MPO with those that you get from others. By comparing loan offers, you can shop for the best loan.

This loan is being offered by _____

Please call us with any questions at _____

Your name _____ SSN _____ - _____ - _____

This loan is for property at this address _____

This MPO is valid for 10 business days from this date _____

Keep this MPO to compare with your actual costs at settlement.

Summary of Your Loan Terms for This Estimate

Your Loan Details

Your loan amount will be:		\$ _____
Your loan is	<input type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	_____ %	_____ % initially, then it will adjust. The interest rate adjustment will be based on the _____ index and can change up to _____ percentage points. Your first adjustment will occur in _____ (months or years)
Your loan term	_____ years	_____ years
Your monthly payment for principal, interest, and any mortgage insurance	\$ _____	\$ _____ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$ _____
Your rate lock period	_____ days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input type="checkbox"/> No	

The interest rate and monthly payment shown above can change until you lock in your interest rate.

Your Settlement Costs

Charge for Your Guaranteed Mortgage Package (item 1 on page 2)	
Charge or Credit for Your Points (item 2 on page 2)	
Estimated Charges for Settlement Services Outside the Package (items 3-6 on page 2)	
Total Estimated Settlement Charges	\$ _____

Understanding Your Settlement Charges

Charge for Your Guaranteed Mortgage Package

1. Your guaranteed mortgage package
Your guaranteed mortgage package is one fixed price for most of the services that you will need to get your loan. This price cannot change before settlement. This package includes the charges for the following services, if needed:
Service charge
This charge is for the services we provide when we process this loan for you.
Other required settlement services
This charge is for certain services we require to complete your settlement, for example, an appraisal, credit report, or survey. We will choose the providers of these services.
Title services and lender's title insurance
This charge includes the services of a settlement agent, for example, and title insurance to protect the lender, if required.
Taxes and fees
This charge includes state and local taxes and fees.

Charge for Your Guaranteed Mortgage Package \$

Charge or Credit for Your Points

2. Charge or credit for your points
This is a fixed charge or credit associated with the interest rate and loan amount. For your interest rate of % , this is points, which is % of the loan amount.

Charge or Credit for Your Points \$

Estimated Charges for Settlement Services Outside the Package

3. Reserves or escrow This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.	
4. Daily interest charges This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. For this loan, this amount is \$ per day for days (if your closing date is ____/____/____).	
5. Homeowner's insurance This charge is for the insurance you must buy for the property to protect from a loss such as fire.	
6. Optional owner's title insurance This charge is for insurance you can choose to buy to protect yourself from title defects.	

Estimated Charges for Settlement Services Outside the Package \$

Total Estimated Settlement Charges \$

Charges That Can Change

All of the charges listed above can change at settlement **except** for the Charge for Your Guaranteed Mortgage Package and the Charge or Credit for Your Points after you lock in your interest rate.

Services That May Be in This Package

As part of this mortgage package, we may obtain certain services as indicated below.

	Yes	No		Yes	No
Property Appraisal	<input type="checkbox"/>	<input type="checkbox"/>	Closing Services	<input type="checkbox"/>	<input type="checkbox"/>
Credit Report	<input type="checkbox"/>	<input type="checkbox"/>	Title Search	<input type="checkbox"/>	<input type="checkbox"/>
Pest Inspection	<input type="checkbox"/>	<input type="checkbox"/>	Title Examination	<input type="checkbox"/>	<input type="checkbox"/>
Survey	<input type="checkbox"/>	<input type="checkbox"/>	Lender's Title Insurance	<input type="checkbox"/>	<input type="checkbox"/>

Understanding the Trade-off Between the Charges for Your Loan and Your Interest Rate

	The loan in this MPO	A loan with a lower interest rate	A loan with lower settlement costs
Your loan amount	\$	\$	\$
Your interest rate	%	%	%
How much your monthly payment will be	\$	\$	\$
How much more or less in monthly payments from this MPO	No Change	You will pay \$ less every month	You will pay \$ more every month
How much more or less you will pay at settlement with this interest rate	No Change	Your lower interest rate will raise your settlement costs by \$	Your higher interest rate will lower your settlement costs by \$
How much your total estimated settlement charges will be	\$	\$	\$

We have offered you a particular interest rate and estimated settlement costs in this MPO. But, it is important that you see how this loan compares to others that you could choose.

- If you want to choose a loan with a **lower interest rate**, then you will have **higher settlement costs**.
- If you want to choose a loan with **lower settlement costs**, then you will have a **higher interest rate**.

The table above shows how the loan that we've offered you in this MPO compares to these different options. The loan in this MPO is in the first column. In the middle column is a loan with a **lower interest rate**. In the last column is a **loan with lower settlement costs**.

If you want one of these options, you can ask for a new MPO.

If this loan offer is for an adjustable rate mortgage, the comparisons in the table are for the initial interest rate before any adjustments are made.

Accepting This Mortgage Package Offer

What should you do if you want to accept this offer?

- You will need to pay a fee of \$ _____ which will be applied towards your settlement charges.
- You will need to decide to lock in an interest rate now or later. Check the option you would like:
 - ☐ I want to accept the offer by signing below and locking in the interest rate now.
 - ☐ I want to accept the offer by signing below and will wait to lock in the interest rate. I realize I must lock in the interest rate at least _____ days before settlement.

What happens once you accept this offer? We will verify your monthly income, the property value, your credit rating, and other information that you've provided to us. We may ask you for more information. After we approve your mortgage application, we will provide the mortgage loan and settlement services exactly as we've outlined in this offer.

What if you are not sure you want to accept this offer? This offer of \$ _____ (Guaranteed Mortgage Package Charges), _____ (Interest Rate), and \$ _____ (Charge or Credit for Your Points) is valid until ____/____/____ (date).

If you choose to wait, then your Interest Rate and the Charge or Credit for Your Points can change. You can find current interest rates and points options by going to: _____
You and your lender can calculate the new Charge or Credit for Your Points in the following way:

New Interest Rate	
New Charge or Credit for Your Points This charge or credit is _____ (Your points) X .01 X _____ (Your loan amount).	

Our Signature

Date

Your Signature

Date

Worksheet for Comparing Your Estimated and Actual Settlement Charges from the Good Faith Estimate (GFE) to the HUD-1

What is the purpose of this worksheet?

This worksheet provides a way to compare the estimate of settlement charges from a Good Faith Estimate (GFE) to the actual charges listed on your HUD-1 Settlement Statement. The tables below can help you check to see if these costs are what you expected.

How should you use the worksheet?

- Step 1. Fill in Table 1 using your GFE and the directions for that table.
- Step 2. Enter the charges shown on page 2 of your GFE in the amount column on the left side of Tables 2, 3 and 4.
- Step 3. Enter the charges from the HUD-1 settlement statement using the numbers and labels provided to find the amounts that correspond to each of the categories on your GFE. In some cases, you may need to look in several HUD-1 categories to find the right charges. Add the charges and enter the total in the amount column on the right side of Tables 2, 3, and 4.
- Step 4. Compare the charges in each category between the GFE and the HUD-1. For any charges that vary more than expected or for charges that you cannot identify, ask your lender or broker, your settlement agent, or attorney to explain why there is a difference.

Table 1

Two types of items from the GFE are entered in Table 3 or Table 4 depending upon whether you found the provider of the service on your own or whether the lender or broker who is providing the loan selected or referred you to a provider. For each charge, decide who arranged for the service. Fill in Table 1 before completing Tables 2, 3, and 4.

Charge on Your GFE	Who Arranged for this Service?	Amount	Where Should You Enter the Amount?
3. Title services and lender's title insurance	<input type="checkbox"/> The lender or broker selected or referred you to a provider for the service		Enter in Table 3
	<input type="checkbox"/> You found the provider for the service on your own		Enter in Table 4
4. Required services that you can shop for			
First service listed	<input type="checkbox"/> The lender or broker referred you to a provider for the service		Enter in Table 3
	<input type="checkbox"/> You found the provider for the service on your own		Enter in Table 4
Second service listed	<input type="checkbox"/> The lender or broker referred you to a provider for the service		Enter in Table 3
	<input type="checkbox"/> You found the provider for the service on your own		Enter in Table 4
Third service listed	<input type="checkbox"/> The lender or broker referred you to a provider for the service		Enter in Table 3
	<input type="checkbox"/> You found the provider for the service on your own		Enter in Table 4
Fourth service listed	<input type="checkbox"/> The lender or broker referred you to a provider for the service		Enter in Table 3
	<input type="checkbox"/> You found the provider for the service on your own		Enter in Table 4

Helpful Hints:

- A charge can be entered only once in Table 2, 3, or 4. If a charge is entered in more than one place (for example, in both Table 2 and Table 3) the totals will not add correctly when you sum them at the end.
- Begin with the GFE. Only work with the HUD-1 settlement sheet after you have filled in the GFE numbers and they add to the correct total.
- Use the GFE entries to help you find the HUD-1 charges. For example, if you have an appraisal listed in item 2 (Required services that we select), find the appraisal figure on the HUD-1 and enter it across from the GFE number.
- All of the charges you need from the HUD-1 settlement sheet will be on the second page of the HUD-1.
- When a range of numbers is given from the HUD-1 (for example, 800-899) this means that any number in that range (for example, 801, 845, or 873) should be included.

Tables 2, 3, and 4

Tables 2, 3, and 4 are organized into three parts according to how much charges can vary between the GFE and the HUD-1, from no change at all to very large changes.

Table 2: Charges That Cannot Increase at Settlement

The charges listed below should be exactly the same on your GFE and the HUD-1 settlement statement.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	Amount	Description	Amount
1. Our service charge		801 Loan origination fee	
		Also include any other fees listed from 803-899 that are charged by the lender rather than another provider.	
A Subtotal from GFE		D Subtotal from HUD-1	

Table 3: Charges That Cannot Increase More Than 10% at Settlement

The sum of the charges listed below may have changed from your GFE to your HUD-1 settlement statement, but they cannot increase by more than 10 %. Add the charges from the GFE and compare them to the sum of the same charges from the HUD-1. If the difference is more than 10%, ask your lender or broker, your settlement agent, or attorney to explain why there is a difference.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	Amount	Description	Amount
2. Required services that we select		803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges	
3. Title services and lender's title insurance (Refer to Table 1. Include the services where you used the providers selected or referred by the lender or broker.)		Only include charges here if you have already listed charges from the GFE in the column to the left. 1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the charge listed for 1110-Owner's coverage before entering an amount.	
4. Required services you can shop for (Refer to Table 1. Include the services where you used the providers referred by the lender or broker.)		Only include charges here if you have already listed charges from the GFE in the column to the left. 803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges	
B Subtotal from GFE		E Subtotal from HUD-1	

Table 4: Charges That Can Change at Settlement

The charges listed below may vary a lot on the HUD-1 settlement statement from the way they appeared on your GFE. Some of the variation can be due to choices you made. For example, you may choose a particular title agent that is different from the one suggested by your lender or broker. Some of the variation can also be due to charges that vary by the settlement date or other factors. For example, if you go to settlement earlier in the month you may have to pay more in daily interest charges.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	Amount	Description	Amount
3. Title services and lender's title insurance (Refer to Table 1. Include the services where you found the provider on your own.)		Only include charges here if you have already listed charges from the GFE in the column to the left. 1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the charge listed for 1110-Owner's coverage before entering an amount.	
4. Required services you can shop for (Refer to Table 1. Include the services where you found the provider on your own.)		Only include charges here if you have already listed charges from the GFE in the column to the left. 803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges	
5. Taxes and fees		1200-1299 Government Recording and Transfer Charges	
6. Reserves or escrow		1000-1099 Reserves Deposited with the Lender	
7. Daily interest charges (Use the total charges listed on your GFE)		901 Interest from	
8. Homeowner's insurance		903 Hazard insurance	
9. Optional owner's title insurance		1110 Owner's coverage	
C Subtotal from GFE		F Subtotal from HUD-1	

Total Estimated Settlement Charges (A+B+C) Number should match GFE		Total Settlement Charges (D+E+F)	
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Worksheet for Comparing Your Estimated and Actual Settlement Charges from the Mortgage Package Offer (MPO) to the HUD-1

What is the purpose of this worksheet?

This worksheet provides a way to compare the estimate of settlement charges from a Mortgage Package Offer (MPO) to the actual charges listed on your HUD-1 Settlement Statement. The tables on the next page can help you check to see if these costs are what you expected.

How should you use the table?

- Step 1. Enter the amounts shown on your MPO in the column on the left side of the table in the amount column.
- Step 2. Look on your HUD-1 using the numbers and labels provided to find the amounts that correspond to each of the categories on your MPO. In some cases you may need to look in several HUD-1 categories to find the right charges. Add the charges and enter the total in the amount column on the right side of the table.
- Step 3. Compare the charges in each category. For any charges that vary more than expected or for charges that you cannot identify, ask your lender or broker, your settlement agent, or attorney to explain why there is a difference.

How is the table organized?

The table is organized according to how much charges can vary between the MPO and the HUD-1 from no change at all to very large changes.

Helpful Hints:

- Begin with the MPO. Only work with the HUD-1 settlement sheet after you have filled in the MPO numbers and they add to the correct total.
- All of the charges you need from the HUD-1 settlement sheet will be on the second page.
- When a range of numbers is given from the HUD-1 (for example, 800–899) this means that any number in that range (for example, 801, 845, or 873) should be included)

Charges That Cannot Increase at Settlement

The charges listed below should be exactly the same on your MPO and the HUD-1 settlement statement.

Charges on Your MPO		Charges on Your HUD-1 Settlement Statement	
Description	Amount	Description	Amount
1. Charge for Your Guaranteed Mortgage Package		801 Loan origination fee	
A Subtotal from MPO		D Subtotal from HUD-1	
2. Charge or Credit for Your Points		808 Charge or credit for your points	
B Subtotal from MPO		E Subtotal from HUD-1	

Charges That May Vary Considerably from the MPO

The charges listed below may vary a lot on the HUD-1 settlement statement from the way they appeared on your MPO. Some of the variation can be due to choices you made. For example, you may wish to have the optional owner's title insurance. Some of the variation can also be due to charges that vary by the settlement date or other factors. For example, if you go to settlement earlier in the month you will have to pay more in daily interest charges.

Charges on Your MPO		Charges on Your HUD-1 Settlement Statement	
Description	Amount	Description	Amount
3. Reserves or escrow		1000-1099 Reserves Deposited with the Lender	
4. Daily interest charges (Use the total charges listed on your MPO)		901 Interest from	
5. Homeowner's insurance		903 Hazard insurance	
6. Optional owner's title insurance		1110 Owner's coverage	
C Subtotal from MPO		F Subtotal from HUD-1	

Total Estimated Settlement Charges (A+B +C) Number should match MPO		Total Settlement Charges (D +E +F)	
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HUD Testing: Screening Protocol for Potential Borrowers (Attachment A-Part 1)

Eligibility Requirements

We are recruiting a total of 60 new and experienced potential borrowers in four sites. We intend to recruit a mix of participants from these groups, with one third being new homebuyers and two thirds being those who have purchased a home at least once previously. For the new homebuyers we will be recruiting those who are likely to purchase a home within the next six months. For the experienced homebuyers we will be recruiting those who have purchased or refinanced in the past two years. All participants must be able to read and write English. In addition to home-buying interest and experience, we also have some demographic considerations. We intend to recruit at least 12 participants across all sites who fall into the following categories:

- The elderly—defined as 65 years or older
- African Americans
- Hispanic Americans—defined by self-identification
- Asian Americans
- Single females
- Low education—defined as not having graduated from high school

Recruitment by Site

In each location we will be recruiting 15 participants. They must meet the requirements shown in the following table.

Individual Potential Homebuyers	
Number needed	Criteria
All 15	Can read and write English
At least 3, but not more than 4 of the 15	Consider themselves African American
At least 3, but not more than 4 of the 15	Consider themselves Hispanic American
At least 3, but not more than 4 of the 15	Consider themselves Asian American
At least 3, but not more than 5 of the 15	Are age 65 or older
At least 3 of the 15	Are single females
At least 4, but not more than 5 of the 15	Have not graduated from high school
5 of the 15	Are first-time homebuyers who plan to buy a home within six months
10 of the 15	Have purchased or refinanced a home in the past two years

Script for participant recruitment phone call (Attachment A-Part 2)

1. Hello, my name is (FIRST AND LAST NAME) may I speak to (NAME FROM CALL RECORD LABEL)?

IF SOMEONE OTHER THAN R ASKS WHY YOU ARE CALLING, SAY: I'm calling regarding an important study of closing costs for buying a home, including houses, townhouses and condominiums. We are paying participants to help us with this study.

(Check One Answer)

_____ NO ONE BY THAT NAME AT THIS NUMBER

_____ SPEAKING TO R; R COMES TO THE PHONE --> SKIP TO Q3

2. CONFIRM YOU HAVE DIALED CORRECTLY. ASK IF RESPONDENT WAS EVER AT THIS NUMBER (DO THEY HAVE HIS/HER NEW NUMBER)?

IF NO NEW NUMBER IS GIVEN, FINALIZE AS NOT LOCATED.

3. Hello, my name is _____ and I'm calling from (MARKETING COMPANY'S NAME) for the Kleimann Communication Group. The Kleimann Communication Group, along with the U.S. Department of Housing and Urban Development (HUD), is conducting a study of homebuyer perceptions of closing costs at settlement—that is the payments that are made when you buy a home on the day that you take ownership. We will pay you \$50 to participate in an interview for this study and your responses will be kept completely confidential.

This project is intended to find out what people think of some new forms that HUD has developed to assist consumers with home purchases.

We have chosen you to participate in a one-on-one interview, which will last an hour and a half, and will be held during the week of (insert week). In this interview, we will ask you to read some new forms about settlement costs that HUD has developed to see your reaction to them. We will pay you the \$50 at the end of the interview for your participation. Do you have a few minutes to answer some pre-qualifying questions (IF NO, WHAT WOULD BE A CONVENIENT TIME TO CALL BACK?)

PROBE: (We are not selling anything, we are looking to recruit people to help out with a nationwide study the HUD is conducting. Everything you say is confidential, and your identity is not given to the HUD.)

IF NEEDED: The exact location of the interview is _____.

(Check One Answer)

☐ YES -->CONTINUE WITH Q4.

☐ NO --> CALL BACK TIME _____

☐ REFUSE -- > END OF INTERVIEW, THANK R.

4. In the last two years have you purchased or refinanced a home—including a house, townhouse or condominium?

☐ Yes Skip to question 7

☐ No Go to question 5

5. Do you plan to purchase a home in the next six months?

☐ Yes Go to question 6

☐ No [Terminate] I am sorry, but you do not fit the background we need for participation in this particular study. Thank you for talking with us.

6. ASK THE FOLLOWING THREE QUESTIONS. IF THE RESPONDENT ANSWERS "YES" TO ANY OF THEM, GO QUESTION 7

6a. In the last six months, have you gone to look at homes for sale at open houses?

☐ Yes Skip to question 7

☐ No Go to question 6b

6b. In the last six months, have you contacted a real estate agent?

☐ Yes Skip to question 7

☐ No Go to question 6c

6c. In the last six months, have you pre-qualified for a mortgage loan?

☐ Yes Go to question 7

☐ No [Terminate] I am sorry, but you do not fit the background we need for participation in this particular study. Thank you for talking with us.

7. Have you ever worked as a real estate agent, mortgage banker, mortgage broker, or in another position within the field of real estate?

☐ Yes [Terminate] I am sorry, but you do not fit the background we need for participation in this particular study. Thank you for talking with us.

☐ Go to question 8

8. Do you primarily read and speak English at home?

☐ Yes Go to question 9

☐ No [If the person appears to be very fluent in English and seems to have been following everything up to this point in the interview, go to question 9. If this answer confirms your concerns about whether this person is going to be a good subject for this study then say] I am sorry, but you do not fit the background we need for participation in this particular study. Thank you for talking with us.

9. What is your gender? (INFER IF CLEAR, OTHERWISE ASK)

☐ Male

☐ Female

10. Which of the following age groups are you in?

☐ Under age 21

☐ 21 to 34

☐ 35 to 44

☐ 45 to 54

☐ 55 to 64

☐ 65 and older

11. Are you currently married?

☐ Yes

☐ No

12. What is the highest level of education you have completed?

☐ Less than high school

☐ High school or GED

☐ Some college

☐ College graduate

☐ Graduate school

13. Are you of Hispanic or Latino origin?

☐ Yes

☐ No

14. What is your race? You may select one or more than one category

☐ American Indian or Alaskan Native

☐ Asian

☐ Black or African-American

☐ Native Hawaiian or other Pacific Islander

☐ White

15. I will now give you the interview times that we have available. The interview itself will take one and a half hours, but you need to allow some time for administrative details. (CALENDAR TO BE UPDATED BEFORE EACH CALL) [Revise this calendar as necessary.]

Day and date	9:30 a.m.	12 p.m.	3:00 p.m.	6:00 p.m.
Monday 7/7				
Tuesday 7/8				
Wednesday 7/9				
Thursday 7/10				
Friday 7/11				

- ☐ NO, CAN'T MAKE THOSE TIMES -- > THANK FOR TIME, END OF INTERVIEW
☐ REFUSE -- > THANK R FOR TIME, END OF INTERVIEW

16. I will send you a letter confirming the time and date of the interview, and giving you the exact location of our facility. The letter will include a number for you to call if you have any questions. In order to send you the letter, I need to have your current address.

IF MARKETING GROUP DOES NOT HAVE ADDRESS LISTED, ASK R TO GIVE A CURRENT ADDRESS AND LIST BELOW.

IF MARKETING GROUP HAS ADDRESS LISTED, ASK IF IT IS STILL CORRECT:

(Check One Answer)

- ☐ YES, ADDRESS IS CORRECT --- > CONTINUE WITH Q17
☐ NO, ADDRESS IS NOT CORRECT -- > MAKE CORRECTIONS BELOW, THEN ASK Q.

ADDRESS: _____

CITY/STATE/ZIP: _____

17. And to make sure I send it to the right person, can I check the spelling of your name? (VERIFY NAME IS CORRECT AS LISTED ON CALL RECORD, MAKE ANY CHANGES BELOW)

(Check One Answer)

- ☐ YES, NAME IS CORRECT --- > CONTINUE WITH Q18
☐ NO, NAME IS NOT CORRECT-- > MAKE CORRECTIONS BELOW, THEN ASK Q18

R'S CORRECT NAME: _____

18. We will need to call you the day before the interview to remind you about the appointment. Is it ok to call you at this number?

(Check One Answer)

- ☐ YES, OK TO CALL THIS NUMBER. --- > CONTINUE WITH Q19.
☐ NO, CALL DIFFERENT NUMBER -- > RECORD NUMBER BELOW

NUMBER TO CALL TO REMIND R: _____ THEN Q18.

19. Thank you for your help. I'm glad you can come to the interview. Please watch for a reminder letter from the Kleimann Communication Group [or from the recruiter].

Acknowledgment Letter to Participants (Attachment A-Part 3)

Dear [participant]:

Thank you for agreeing to participate in a one-on-one interview being conducted by Kleimann Communication Group for the U.S. Department of Housing and Urban Development. The interview will last one and a half hours, but you should leave some time for administrative details. Below is the date, time, and location that we have reserved for you. We are also attaching directions for you.

[Date, time, and location here]

If you cannot keep this appointment, please call us at [local number here].

We look forward to meeting you and having your valuable insights for this important research.

Sincerely,

OR

Recruiting Agency, Inc.

Dear Guest:

Recently, one of our staff members invited you to attend a market research study. You have been specially selected to participate in that study with a limited number of other persons. This letter will confirm your attendance, and we look forward to seeing you in our office.

When you come, you will have the opportunity to express your opinions about certain topics that we discussed with you earlier. We are not selling anything and you will not be involved in any form of sales or sales follow-up as a result of participating in our study. We are very interested in hearing what you have to say.

Your attendance at our research study is confirmed for the time and date shown below. We ask that you please be prompt for your scheduled appointment. Should you find that you cannot meet your scheduled time, we ask you to call (____)____-____ so that we may reschedule you.

Since our research study has a limited number of reservations, we have confirmed only the person to whom this letter is addressed. As a gift of our appreciation, each person who completes our study will be given \$__ cash.

The location where the research study will be held is our _____ office. It is located at _____.

Thank you in advance for helping us and we look forward to seeing you.

Cordially,

Director/Manager

DATE: _____

DAY: _____

TIME: _____ a.m. / p.m.

LENGTH OF SESSION: _____

MONETARY GIFT: _____

Participant Reminder Telephone Script (Attachment A-Part 4)

1. Hello, my name is (FIRST AND LAST NAME). May I speak to (NAME FROM CONFIRMED PARTICIPANT LIST)?

SPEAKING TO R; R COMES TO THE PHONE --> SKIP TO Q3

IF SOMEONE OTHER THAN R ASKS WHY YOU ARE CALLING, SAY: I'm calling regarding an important study of settlement costs that NAME FROM CONFIRMED PARTICIPANT LIST is participating in. Is CONFIRMED PARTICIPANT in?

2. IF NO, ASK, May I leave a message for him or her? GO TO Q3

3. My name is (FIRST AND LAST NAME) and I'm calling from (MARKETING COMPANY'S NAME) for the Kleimann Communication Group to confirm NAME OF CONFIRMED PARTICIPANT'S or YOU'RE participation on DATE AND TIME for the settlement costs study. Will you still be able to make it?

IF LEAVING A MESSAGE SAY, will you please give NAME OF CONFIRMED PARTICIPANT this message and have them call me at TELEPHONE NUMBER if they will not be able to make it.

THANK PARTICIPANT OR PERSON TAKING MESSAGE.

Questionnaire

Thank you for agreeing to meet with us today. Before we begin our work, we ask that you take no more than two minutes to fill out a brief questionnaire. We will use this information to help us report our findings to HUD. Do not put your name on the questionnaire. We will not use your name in any report.

Please check the appropriate boxes below.

1. What is your gender?
 - ☐ Male
 - ☐ Female
2. What is your age?
 - ☐ 21 or younger
 - ☐ 22 to 34
 - ☐ 35 to 44
 - ☐ 45 to 54
 - ☐ 55 to 64
 - ☐ 65 or older
3. Are you of Hispanic or Latino origin?
 - ☐ Yes
 - ☐ No
4. What is your race? You may select one or more than one category.
 - ☐ American Indian or Alaskan Native
 - ☐ Asian
 - ☐ Black or African-American
 - ☐ Native Hawaiian or other Pacific Islander
 - ☐ White
5. What is the highest level of education you have completed?
 - ☐ Less than high school
 - ☐ High school or GED
 - ☐ Some college or a 2-year college program
 - ☐ College graduate
 - ☐ Graduate school
6. What was your gross household income (before taxes) last year?
 - ☐ Less than \$20,000
 - ☐ \$20,000 to \$39,999
 - ☐ \$40,000 to \$59,999
 - ☐ \$60,000 to \$79,999
 - ☐ \$80,000 to \$99,999
 - ☐ \$100,000 or more
7. Are you married?
 - ☐ Yes
 - ☐ No

8. Have you purchased or refinanced a home, including houses, townhouses, and condominiums, in the last two years?
- ☐ Yes
 - ☐ No
9. Are you planning to purchase a home, including houses, townhouses, and condominiums, in the next six months?
- ☐ Yes
 - ☐ No
10. Which of the following have you done in the last six months? (check all that apply)
- ☐ Gone to look at homes for sale at open houses
 - ☐ Contacted a real estate agent
 - ☐ Pre-qualified for a mortgage loan
 - ☐ None of the above

Thank you. You have finished the questionnaire.

Moderator's Script for Condition 1

Introduction (15 minutes)

Introduce yourself (and your partner, depending on the configuration of the room):

I'm [*your first name*] and this is [*partner's first name*]. We work for the Kleimann Communication Group in Washington, DC. Today, we're going to show you several forms that the U.S. Department of Housing and Urban Development has developed to help homebuyers better understand closing costs and settlement costs as they prepare to buy or refinance a house. They want to get your reactions now, to see if the changes they are thinking of making are on the right track.

For our project today, we will be videotaping our conversation and [*partner—if in the same room*] will be taking notes to help us remember what you say. We videotape the conversations only to help us review what happened after we are finished today. We are most interested in making you comfortable with this procedure, and we also want to assure you that everything you say and do is confidential. If you really prefer us not to tape this session, please let us know now.
[*pause*]

We do not share your name or other information about you with HUD. We report our results to them without identifying people by name. During this testing session do you mind if we call you by your first name? We would like to keep our discussion with you confidential, and the easiest way would be for us to use our first names. Is this okay?

I am going to ask you to perform several tasks that involve these new forms. I will also have some questions to ask, but please remember, there are no right or wrong answers. We are not testing you. We are testing the forms and how well they accomplish what HUD wants them to.

We want to learn from you so that we can improve the forms. We're especially interested in anything you think might be confusing or hard for other people to understand.

You should also know that I didn't design the forms, and you won't hurt my feelings, no matter what you say about them. So feel free to say what you think.

Confidentiality Agreement

What you say will be confidential. We won't connect your name with anything you say. Again, we don't identify you in any way, so your answers are also confidential.

I am going to give you an agreement which explains how we keep the information you provide confidential and how you can stop participating at any time, or not answer questions that we might ask. Of course, we would like you to participate to the fullest extent that you can.

Hand the confidentiality agreement to the person.

If you agree to the terms, please print your name, and then sign and date it, and I will take it back for our records.

Take back the signed form. Give them a copy of the form to keep.

Thank you.

Questionnaire

We are going to begin by asking you to fill out a brief questionnaire. Again, your answers are completely confidential. We do not have you fill out your name on the questionnaire, so your answers cannot be identified as yours. Please feel free to give honest and complete answers to the questions. If you have a question or trouble with any of the questions, please let me know, and I will help you.

Hand the questionnaire to the person and wait for the person to complete the form. When the person is finished, place the questionnaire in an envelope and close it.

Thank you. Now, we can begin the most important part of today's work.

Introduce think-aloud procedure

Today's interview will take no more than one and a half hours. In this time, we are going to have you work with several documents that I will give to you shortly.

When I do, I will also tell you what I want you to do. Part of what I want you to do is to describe what you are looking at in the document. That means you have to speak up and tell me what you see in the document; when you turn a page, tell me which page you are on, and what you see and read. I also want you to share with me any ideas, questions, suggestions, or confusion that you might have about the document and any part of the document.

I know that this might seem unusual, especially if you are quiet, but it is important that we hear what you are thinking about as you look at a form, what you see, and what you are doing. If you are quiet, I will ask you questions. Remember, we are not testing you or what you say about the document I hand you. We want to understand what works and what doesn't work in the document.

Let's take some time to practice so that you can get the idea. Here is a menu from a restaurant. You are trying to decide whether you want to eat there. Take a look at the menu and tell me what you thinking, reading, and doing.

What is the first thing you notice on the menu?

Give the person the menu and allow the person several minutes to try out the protocol. Get them comfortable with talking about what they are looking at, reading, voicing questions, confusion, and decisions. Ask them what they are reading, where they are looking, and when they can make a decision.

Good. You understand what we want!

Any questions before we get started?

Before we get started with the forms I would like to ask you a question about your homebuying preferences:

1. When you are getting a mortgage loan to buy a home, would you usually go to several different mortgage brokers or lenders to find the best loan for you, or do you think you would find one lender or broker and see what they had available?

Task 1: Undirected observation of the test subject with the GFE (15 minutes)

The purpose of this task is to observe and record how test subjects react to the GFE, including what they look at, the sequence that they look at pages, and how they use, overlook, interpret, and misinterpret the information they see. Be careful to record the sequence of pages that they look at, and if possible, the portions of each page that they actually read and interpret. Use the notetaker's list to record navigation points.

Okay. In a moment, I am going to hand you a form that HUD has recently revised. It is called the Good Faith Estimate of Settlement Costs, or GFE. I would like you to imagine that you have been looking for a new home and you have located one that you would like to buy for \$120,000. You are going to put \$20,000 down on the house. Now you are in the process of trying to arrange for a mortgage loan for \$100,000. This is the form that you have received from one of the financial institutions that gives you an estimate of what settlement costs would be if you used them.

Once I hand the form to you, please start talking aloud, telling me what you notice and react to. Please tell me what you are looking at, which page you are on when you turn the page, and the part of the page that you are looking at. Remember to tell me what you like about what you see, what you are confused about, and what else you are thinking about.

Take as long as you want to look at and read the document in the fashion that you normally would. You don't have to read all of the document or read it in any particular order. Use your judgment and tell me why you look at the parts of the document that you do read.

I might interrupt you to ask you questions, especially if you are quiet.

Ready? [*Hand subject copy of GFE*] Here is what you have received in the mail from one of the potential financial institutions who could give you a loan.

To help get you started, what is the first thing you notice and feel?

Interviewer: Prompt whenever the person moves to another page. Also, when the person turns to another page, ask him or her what they are looking at. Remind them to tell us what they are thinking, what they like and dislike, and what they understand and what they don't understand.

Task 2: Questions about the GFE (20 minutes)

Thank you for looking at the GFE and sharing your observations. We would like to follow up with a few questions.

Please look at the second paragraph on the first page of the form. It starts with "How should you use this GFE to shop for the best loan?"

1. Did you read this paragraph earlier when you were looking at the form?

Please read the paragraph out loud and then tell me what you think it means.

Now we would like to ask you some factual questions about the form. You can look at the form to find the answers. Remember this is not a test of how well you can read the form, but rather how well the form communicates information to you.

2. After looking at this form, do you think you would probably get several different GFEs from different sources before deciding from whom you want to get your loan? [Pause for answer] Why?
3. What is the interest rate for this mortgage? [Pause for answer] Can this interest rate change before settlement or is it guaranteed to stay at this level? [Pause for answer] Will this interest rate vary over the term of the loan?
4. What will your monthly payment be for principal, interest, and mortgage insurance?
5. How much time do you have between the time you lock in your interest rate and when you must go to settlement?
6. Does this loan have a prepayment penalty?
7. Does this loan have a balloon payment?
8. What does this form estimate that your total charges at settlement will be if you choose this loan offer?

9. There is a charge listed as “our service charge.” What does this charge mean to you? What do you think the charge is for?
10. On the second page under the section labeled, “Your Estimated Settlement Charges,” what is the difference between the types of items listed under category 2 and the types of items listed under category 4?
11. Please look at item 7 on page 2. If you were to close on August 5th 2003, rather than August 25th 2003, would the total amount listed for daily interest charges change? [Pause for answer] Would it go up or down?
12. Do you have to pay for item 9 or not?
13. Which charges cannot increase at settlement from the way they are on this form?
14. Which charges, when added together, cannot increase at settlement by more than 10 percent from the way they are on this form?
15. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
16. On page 3, at the top of the page, there is a box that says, “Discount Points.” Please read the text in the box and then tell me in your own words what you think it means.
17. There is another box below that one that says, “Yield Spread Premium.” Please read the text in the box and then tell me in your own words what you think it means.
18. What do you understand from the table at the bottom of page 3? What is it telling you? [Pause for answer] According to the table, if you pay more money in cash at settlement, would your monthly principal and interest go up or down?

Thank you very much for answering those questions. We would now like to ask you some other questions about how you reacted to the form.

19. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
20. Do you think that the form provides the right information for you? [Pause for answer] Is it written at the right level for you? [Pause for answer] Why?
21. What do you find to be the most useful information on this form?
22. What do you like about the form?
23. What don't you like about the form?
24. Do you have any suggestions for improving the form?

Thank you for answering all of those questions.

Now I am going to give you another GFE to look at. [*Hand subject copy of second GFE*] This is another estimate that you received from another source. Please take a moment to look it over. Tell me what you are thinking as you look it over. [*Allow time for the subject to look at this GFE and record their observations.*]

I would like you to compare the two GFEs that you have. Remember these are two potential loan offers with estimates of the costs you will have to pay when you buy the house.

25. Which of these estimates seems to be the better deal? [Pause for answer] Which one would you choose for your loan? [Pause for answer] Why?

[*After they have gone over the form*] OK. That was very helpful for us. Let's take a short break and then we will resume. We are more than half-way finished now.

Take a ten-minute break here to allow the person to relax and for you to collect your thoughts and record any important observations that you were not able to during the activity. If you confer with your team partner, make sure that you talk somewhere where the test subject cannot hear you.

Let's go on to another form.

Task 3: Undirected observation of the test subject with the MPO (15 minutes)

For the next part of our work with you, we'd like for you to look at another form. This one is called the Mortgage Package Offer or MPO. [*Hand subject copy of MPO*] The situation is the same. You are interested in buying a home for \$120,000 and you have received this form from another potential source for a loan of \$100,000. We know you have seen a similar form with the GFE already, so you might start to see patterns. Please try to work through this form separately. If you do have a strong reaction to something that is the same as or different from the first form, please make sure that you tell us what is getting your attention. Remember to tell us what catches your eye and where you are looking.

Task 4: Questions about the MPO (15 minutes)

Now that you have looked at this form, we would like to follow up with a few questions.

As we did before, we would like to ask you some factual questions about the form. We want to stress again that this is not a test of how well you can read the form, but rather how well the form communicates information to you.

1. What does this form estimate that your total charges at settlement will be if you accept this loan offer?
2. What do you think this mortgage package includes?
3. A charge is listed as "Charge or Credit for Your Points." Is this charge included in your total charges at settlement?
4. Which charges cannot increase at settlement from the way they are on this form?

5. What services will be included in your package?
6. Can you accept the terms of this MPO without locking in the interest rate?
7. If you do not lock in your interest rate now, by when must you lock in the rate?
8. If you do not lock in the interest rate, it could change. What would your new charge or credit for your points be, if the interest rate remained the same and you were now charged one and a half (1.5) points?
9. How long do you have to think over whether you want to accept the terms of this MPO?
10. What happens when you accept this MPO? Does it mean that your mortgage application is automatically approved?

Thank you very much for answering those questions. We would now like to ask you some other questions about how you reacted to the form.

11. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
12. Do you think that the form provides the right information for you? [Pause for answer] Is it written at the right level for you? [Pause for answer] Why?
13. What do you find to be the most useful information on this form?
14. What do you like about the form?
15. What don't you like about the form?
16. Do you have any suggestions for improving the form?

Thank you for looking at all of these forms. We would like to ask you some factual questions about all of the forms. You can look at the forms to find the answers. Again, we are not testing you; we are testing the forms and will use your comments to revise them.

1. Which settlement estimate is the lowest of the three that you have—one of the two GFEs or the MPO?

2. Which loan offer do you think you would choose based on these three estimates? [Pause for answer] Why?
3. Are there some remaining questions in your mind about these estimates? If so, what are some of your questions?

[Use any time remaining to ask any follow-up questions that have occurred during the interview. If you do not have any questions, let the subject go after thanking them.]

You have been very helpful today.

[Say if relevant] We just have a few more questions.....

Thank you for your time and all the helpful information you have given us.

If you have any comments about this testing session or the questionnaire, please write to Bill Reid, U.S. Department of Housing and Urban Development, 451 7th Street SW, Washington, DC 20410. We appreciate your help! You can pick up your payment at the desk out front [*or wherever the testing facility designates*].

Moderator's Script for Condition 2

Introduction (15 minutes)

Introduce yourself (and your partner, depending on the configuration of the room):

I'm [*your first name*] and this is [*partner's first name*]. We work for the Kleimann Communication Group in Washington, DC. Today, we're going to show you several forms that the U.S. Department of Housing and Urban Development has developed to help homebuyers better understand closing costs and settlement costs as they prepare to buy or refinance a house. They want to get your reactions now, to see if the changes they are thinking of making are on the right track.

For our project today, we will be videotaping our conversation and [*partner—if in the same room*] will be taking notes to help us remember what you say. We videotape the conversations only to help us review what happened after we are finished today. We are most interested in making you comfortable with this procedure, and we also want to assure you that everything you say and do is confidential. If you really prefer us not to tape this session, please let us know now. [*pause*]

We do not share your name or other information about you with HUD. We report our results to them without identifying people by name. During this testing session do you mind if we call you by your first name? We would like to keep our discussion with you confidential, and the easiest way would be for us to use our first names. Is this okay?

I am going to ask you to perform several tasks that involve these new forms. I will also have some questions to ask, but please remember, there are no right or wrong answers. We are not testing you. We are testing the forms and how well they accomplish what HUD wants them to.

We want to learn from you so that we can improve the forms. We're especially interested in anything you think might be confusing or hard for other people to understand.

You should also know that I didn't design the forms, and you won't hurt my feelings, no matter what you say about them. So feel free to say what you think.

Confidentiality Agreement

What you say will be confidential. We won't connect your name with anything you say. Again, we don't identify you in any way, so your answers are also confidential.

I am going to give you an agreement which explains how we keep the information you provide confidential and how you can stop participating at any time, or not answer questions that we might ask. Of course, we would like you to participate to the fullest extent that you can.

Hand the confidentiality agreement to the person.

If you agree to the terms, please print your name, and then sign and date it, and I will take it back for our records.

Take back the signed form. Give them a copy of the form to keep.

Thank you.

Questionnaire

We are going to begin by asking you to fill out this brief questionnaire. Again, your answers are completely confidential. We do not have you fill out your name on the questionnaire, so your answers cannot be identified as yours. Please feel free to give honest and complete answers to the questions. If you have a question or trouble with any of the questions, please let me know, and I will help you.

Hand the questionnaire to the person and wait for the person to complete the form. When the person is finished, place the questionnaire in an envelope and close it.

Thank you. Now, we can begin the most important part of today's work.

Introduce think-aloud procedure

Today's interview will take no more than one and a half hours. In this time, we are going to have you work with several documents that I will give to you shortly.

When I do, I will also tell you what I want you to do. Part of what I want you to do is to describe what you are looking at in the document. That means you have to speak up and tell me what you see in the document; when you turn a page, tell me which page you are on, and what you see and read. I also want you to share with me any ideas, questions, suggestions, or confusion that you might have about the document and any part of the document.

I know that this might seem unusual, especially if you are quiet, but it is important that we hear what you are thinking about as you look at a form, what you see, and what you are doing. If you are quiet, I will ask you questions. Remember, we are not testing you or what you say about the document I hand you. We want to understand what works and what doesn't work in the document.

Let's take some time to practice so that you can get the idea. Here is a menu from a restaurant. You are trying to decide whether you want to eat there. Take a look at the menu and tell me what you thinking, reading, and doing.

What is the first thing you notice on the menu?

Give the person the menu and allow the person several minutes to try out the protocol. Get them comfortable with talking about what they are looking at, reading, voicing questions, confusion, and decisions. Ask them what they are reading, where they are looking, and when they can make a decision.

Good. You understand what we want!

Any questions before we get started?

Before we get started with the forms I would like to ask you a question about your homebuying preferences:

1. When you are getting a mortgage loan to buy a home, would you usually go to several different mortgage brokers or lenders to find the best loan for you, or do you think you would find one lender or broker and see what they had available?

Task 1: Undirected observation of the test subject with the MPO (15 minutes)

The purpose of this task is to observe and record how test subjects react to the MPO, including what they look at, the sequence that they look at pages, and how they use, overlook, interpret, and misinterpret the information they see. Be careful to record the sequence of pages that they look at, and if possible, the portions of each page that they actually read and interpret.

Okay. In a moment, I am going to hand you a new form that HUD has developed. It is called the Mortgage Package Offer, or MPO. I would like you to imagine that you have been looking for a new home and you have located one that you would like to buy for \$120,000. You are going to put \$20,000 down on the house. Now you are in the process of trying to arrange for a mortgage loan for \$100,000. This is the form that you have received from one of the financial institutions that gives you an estimate of what settlement costs would be if you used them.

Once I hand the form to you, please start talking aloud, telling me what you notice and react to. Please tell me what you are looking at, which page you are on when you turn the page, and the part of the page that you are looking at. Remember to tell me what you like about what you see, what you are confused about, and what else you are thinking about.

Take as long as you want to look at and read the document in the fashion that you normally would. You don't have to read all of the document or read it in any particular order. Use your judgment and tell me why you look at the parts of the document that you do read.

I might interrupt you to ask you questions, especially if you are quiet.

Ready? [*Hand subject copy of MPO*] Here is what you have received in the mail from one of the financial institutions who could give you a loan.

To help get you started, what is the first thing you notice and feel?

Interviewer: Prompt whenever the person moves to another page. Also, when the person turns to another page, ask him or her what they are looking at. Remind them to tell us what they are thinking, what they like and dislike, and what they understand and what they don't understand.

Task 2: Questions about the MPO (15 minutes)

Thank you for looking at the MPO and sharing your observations. We would like to follow up with a few questions.

Please look at the fourth paragraph on the first page of the form. It starts with “How should you use this MPO to shop for the best loan?”

1. Did you read this paragraph earlier when you were looking at the form?

Please read the paragraph out loud and then tell me what you think it means.

Now we would like to ask you some factual questions about the form. You can look at the form to find the answers. Remember this is not a test of how well you can read the form, but rather how well the form communicates information to you.

2. After looking at this form, do you think you would probably get several different MPOs from different sources before deciding from whom you want to get your loan? [Pause for answer] Why?
3. What is the interest rate for this mortgage? [Pause for answer] Can this interest rate change before settlement or is it guaranteed to stay at this level? [Pause for answer] Will this interest rate vary over the term of the loan?
4. What will your monthly payment be for principal, interest, and mortgage insurance?
5. How much time do you have between the time you lock in your interest rate and when you must go to settlement?
6. Does this loan have a prepayment penalty?
7. Does this loan have balloon payment?

8. What does this form estimate that your total charges at settlement will be if you accept this loan offer?
9. What do you think the mortgage package includes?
10. A charge is listed as “Charge or Credit for Your Points.” Is this charge included in your total charges at settlement?
11. Which charges cannot increase at settlement from the way they are on this form?
12. What services will be included in your package?
13. Can you accept the terms of this MPO without locking in the interest rate?
14. If you do not lock in your interest rate now, by when must you lock in the rate?
15. If you do not lock in the interest rate, it could change. What would your new charge or credit for your points be, if the interest rate remained the same and you were now charged one and a half (1.5) points?
16. How long do you have to think over whether you want to accept the terms of this MPO?
17. What happens when you accept this MPO? Does it mean that your mortgage application is automatically approved?

Thank you very much for answering those questions. We would now like to ask you some other questions about how you reacted to the form. *[If some of these questions have already been answered, do not ask them again.]*

18. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
19. Do you think that the form provides the right information for you? [Pause for answer] Is it written at the right level for you? [Pause for answer] Why?
20. What do you find to be the most useful information?
21. What do you like about the form?
22. What don't you like about the form?

23. Do you have any suggestions for improving the form?

Thank you for answering all of those questions.

OK. That was very helpful for us. Let's take a short break and then we will resume. We are more than half-way finished now.

Take a ten-minute break here to allow the person to relax and for you to collect your thoughts and record any important observations that you were not able to during the activity. If you confer with your team partner, make sure that you talk somewhere where the test subject cannot hear you.

Let's go on to another form.

Task 3: Undirected observation of the test subject with the GFE (15 minutes)

For the next part of our work with you, we'd like for you to look at another form. This one is called the Good Faith Estimate of Settlement Costs or GFE. [*Hand subject copy of GFE*] The situation is the same. You are interested in buying a home for \$120,000 and you have received this form from another potential loan source to provide a loan of \$100,000. We know you have seen a similar form with the MPO already, so you might start to see patterns. Please try to work through this form separately. If you do have a strong reaction to something that is the same as or different from the first form, please make sure that you tell us what is getting your attention. Remember to tell us what catches your eye and where you would look.

Task 4: Questions about the GFE (20 minutes)

Now that you have looked at this form, we would like to follow up with a few questions.

As we did before, we would like to ask you some factual questions about the form. We want to stress again that this is not a test of how well you can read the form, but rather how well the form communicates information to you.

1. What does this form estimate that your total charges at settlement will be if you accept this loan offer?
2. There is a charge listed as “our service charge.” What does this charge mean to you? What do you think the charge is for?
3. On the second page under the section labeled, “Your Estimated Settlement Charges,” what is the difference between the types of items listed under category 2 and the types of items listed under category 4?
4. Please look at item 7 on page 2. If you were to close on August 5th 2003, rather than August 25th 2003, would the total amount listed for daily interest charges change? [Pause for answer] Would it go up or down?
5. Do you have to pay for item 9 or not?
6. Which charges cannot increase at settlement from the way they are on this form?
7. Which charges, when added together, cannot increase at settlement by more than 10 percent from the way they are on this form?
8. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
9. On page 3, at the top of the page, there is a box that says, “Discount Points.” Please read the text in the box and then tell me in your own words what you think it means.
10. There is another box below that one that says, “Yield Spread Premium.” Please read the text in the box and then tell me in your own words what you think it means.
11. What do you understand from the table at the bottom of page 3? What is it telling you? [Pause for answer] According to the table, if you pay more money in cash at settlement, would your monthly principal and interest go up or down?

Thank you very much for answering those questions. We would now like to ask you some other questions about how you reacted to the form.

12. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
13. Do you think that the form provides the right information for you? [Pause for answer] Is it written at the right level for you? [Pause for answer] Why?
14. What do you find to be the most useful information on this form?
15. What do you like about the form?
16. What don't you like about the form?
17. Do you have any suggestions for improving the form?

Now I am going to give you another GFE to look at. [*Hand subject copy of second GFE*] This is another estimate that you received from another source. Please take a moment to look it over. Tell me what you are thinking as you look it over. [*Allow time for the subject to look at this GFE and record their observations.*]

I would like you to compare the two GFEs that you have. Remember these are two potential loan offers that have given you estimates of the costs you will have to pay when you buy the house.

18. Which of these estimates seems to be the better deal? [Pause for answer]
Which one would you choose for your loan? [Pause for answer] Why?

Thank you for looking at all of these forms. We would like to ask you some factual questions about all of the forms. You can look at the forms to find the answers. Again, we are not testing you; we are testing the forms and will use your comments to revise them.

1. Which settlement estimate is the lowest of the three that you have—one of the two GFEs or the MPO?
2. Which loan offer do you think you would choose based on these three estimates?
3. Are there some remaining questions in your mind about these estimates? [Pause for answer] If so, what are some of your questions?

[Use any time remaining to ask any follow-up questions that have occurred during the interview. If you do not have any questions, let the subject go after thanking them.]

You have been very helpful today.

[Say if relevant] We just have a few more questions.....

Thank you for your time and all the helpful information you have given us.

If you have any comments about this testing session or the questionnaire, please write to Bill Reid, U.S. Department of Housing and Urban Development, 451 7th Street SW, Washington, DC 20410. We appreciate your help! You can pick up your payment at the desk out front [*or wherever the testing facility designates*].

Moderator's Script for Condition 3

Introduction (15 minutes)

Introduce yourself (and your partner, depending on the configuration of the room):

I'm [*your first name*] and this is [*partner's first name*]. We work for the Kleimann Communication Group in Washington, DC. Today, we're going to show you several forms that the U.S. Department of Housing and Urban Development has developed to help homebuyers better understand closing costs and settlement costs as they prepare to buy or refinance a house. They want to get your reactions now, to see if the changes they are thinking of making are on the right track.

For our project today, we will be videotaping our conversation and [*partner—if in the same room*] will be taking notes to help us remember what you say. We videotape the conversations only to help us review what happened after we are finished today. We are most interested in making you comfortable with this procedure, and we also want to assure you that everything you say and do is confidential. If you really prefer us not to tape this session, please let us know now. [*pause*]

We do not share your name or other information about you with HUD. We report our results to them without identifying people by name. During this testing session do you mind if we call you by your first name? We would like to keep our discussion with you confidential, and the easiest way would be for us to use our first names. Is this okay?

I am going to ask you to perform several tasks that involve these new forms. I will also have some questions to ask, but please remember, there are no right or wrong answers. We are not testing you. We are testing the forms and how well they accomplish what HUD wants them to.

We want to learn from you so that we can improve the forms. We're especially interested in anything you think might be confusing or hard for other people to understand.

You should also know that I didn't design the forms, and you won't hurt my feelings, no matter what you say about them. So feel free to say what you think.

Confidentiality Agreement

What you say will be confidential. We won't connect your name with anything you say. Again, we don't identify you in any way, so your answers are also confidential.

I am going to give you an agreement which explains how we keep the information you provide confidential and how you can stop participating at any time, or not answer questions that we might ask. Of course, we would like you to participate to the fullest that you can.

Hand the confidentiality agreement to the person.

If you agree to the terms, please print your name, and then sign and date it, and I will take it back for our records.

Take back the signed form. Give them a copy of the form to keep.

Thank you.

Questionnaire

We are going to begin by asking you to fill out a brief questionnaire. Again, your answers are completely confidential. We do not have you fill out your name on the questionnaire, so your answers cannot be identified as yours. Please feel free to give honest and complete answers to the questions. If you have a question or trouble with any of the questions, please let me know, and I will help you.

Hand the questionnaire to the person and wait for the person to complete the form. When the person is finished, place the questionnaire in an envelope and close it.

Thank you. Now, we can begin the most important part of today's work.

Introduce think-aloud procedure

Today's interview will take no more than one and a half hours. In this time, we are going to have you work with several documents that I will give to you shortly.

When I do, I will also tell you what I want you to do. Part of what I want you to do is to describe what you are looking at in the document. That means you have to speak up and tell me what you see in the document; when you turn a page, tell me which page you are on, and what you see and read. I also want you to share with me any ideas, questions, suggestions, or confusion that you might have about the document and any part of the document.

I know that this might seem unusual, especially if you are quiet, but it is important that we hear what you are thinking about as you look at a form, what you see, and what you are doing. If you are quiet, I will ask you questions. Remember, we are not testing you or what you say about the document I hand you. We want to understand what works and what doesn't work in the document.

Let's take some time to practice so that you can get the idea. Here is a menu from a restaurant. You are trying to decide whether you want to eat there. Take a look at the menu and tell me what you thinking, reading, and doing.

What is the first thing you notice on the menu?

Give the person the menu and allow the person several minutes to try out the protocol. Get them comfortable with talking about what they are looking at, reading, voicing questions, confusion, and decisions. Ask them what they are reading, where they are looking, and when they can make a decision.

Good. You understand what we want!

Any questions before we get started?

Task 1: Undirected observation of the test subject with the sample GFE (15 minutes)

The purpose of this task is to allow the subject to become familiar with the GFE and also provide further observation of the way a subject works with the GFE. This think-aloud should be handled the way the think-aloud is handled in the other interviews. At the end of 10 minutes you must cut off the think-aloud in order to allow time for the other parts of this interview.

Okay. In a moment, I am going to hand you a form that HUD has developed. This form is called the Good Faith Estimate of Settlement Costs, or GFE. This is a form you receive when you are interested in buying a new home and are looking for a mortgage. I would like you to imagine that you have been looking for a new home and you have located one that you would like to buy for \$120,000. You are planning to put \$20,000 down on the house. Now you are in the process of trying to arrange for a mortgage loan for \$100,000. You have received this estimate from one of the financial institutions interested in giving you a loan.

Once I give you the form, please start talking aloud, telling me what you notice and react to. Please tell me which page you are looking at on the form, and the part of the page that you are looking at. Remember to tell me what you like about what you see, what you are confused about, and what else you are thinking about.

Please read this document in the fashion that you normally would. You don't have to read all of the document or read it in any particular order. Use your judgment and tell me why you look at the parts of the document that you do read.

I might interrupt you to ask you questions, especially if you are quiet.

Ready? [*Hand subject copies of the three forms*] Here is what you have received in the mail from a lender who wants to give you a loan.

To help get you started, what is the first thing you notice and feel?

Interviewer: Prompt whenever the person moves to another form. Also, when the person turns to another page, ask what he or she is looking at. Remind them to tell us what they are thinking, what they like and dislike, and what they understand and what they don't understand.

OK. That was very helpful for us.

Now I am going to give you another GFE to look at. [*Hand subject copy of second GFE*] This is another estimate that you received from another source. Please take a moment to look it over. Tell me what you are thinking as you look it over. [*Allow time for the subject to look at this GFE and record their observations.*]

I would like you to compare the two GFEs that you have. Remember these are two potential loan offers with estimates of the costs you will have to pay when you buy the house.

1. Which of these estimates seems to be the better deal? [Pause for answer]
Which one would you choose for your loan? [Pause for answer] Why?

[*After they have gone over the form*] OK. That was very helpful for us.

Let's go on to another form.

Task 2: Undirected observation of the test subject with the crosswalk and the HUD-1 settlement statement (10 minutes)

For the next part of our work with you, we want you to imagine that the first offer you have just been working with is the one you have decided to choose for your new loan. Now it is the day before settlement and you have received the HUD-1 settlement statement that lists the exact charges that you will be facing at settlement. [*Hand subject copy of HUD-1*] You want to compare the GFE you received previously with the exact charges at settlement. In order to help you do that HUD has devised a comparison sheet. [*Hand subject copy of the crosswalk*]

We would like you to focus now on the comparison sheet. We would like to know what you would look at and how you would use the comparison sheet to compare the GFE and the HUD-1 settlement statement. Do not attempt to fill out the form yet, just look it over and tell us about your reactions to it. The situation is exactly the same. You are interested in buying a home for \$120,000 and you are now going to settlement on that home. Remember to tell us what catches your eye and where you would look.

We are primarily interested in the reactions to the crosswalk here. They may spend a lot of time studying the HUD-1 in order to understand the crosswalk. However, our objective is to get their reactions to the crosswalk. Do not encourage them to give lots of feedback on the HUD-1 because that form is not being revised. Time them and move to the next section after ten minutes.

Let's take a short break and then we will resume. We are more than half-way finished now.

Take a ten-minute break here to allow the person to relax and for you to collect your thoughts and record any important observations that you were not able to during the activity. If you confer with your team partner, make sure that you talk somewhere where the test subject cannot hear you.

Task 3: Working with the crosswalk (35 minutes)

Thank you for giving us that information. We would now like you to fill in the crosswalk with the numbers from the GFE first. There is some additional information that you need to have in order to be able to complete the crosswalk correctly:

1. For the title services, you can either let the mortgage company, Oak Financial, supply these services, or you can supply them yourself. In this case you decided to use the recommendations from Oak Financial. The costs for the title charges were the same as on the GFE.

2. For the survey listed under item 4 of the GFE, you found your own provider. The survey cost for your provider was the same price--\$200.

Here is a card with that information on it. You may refer to this card as much as you like.

If the person forgets the information given above remind them about it and answer any questions they have. Let the person fill in the crosswalk with the information from the GFE. Give them 15 minutes to do this. After 15 minutes, stop them and give them a correctly completed crosswalk with the numbers from the GFE filled in, but not those from the HUD-1.

Thank you for working with these forms. I am going to give you a clean worksheet with the numbers filled in already from the GFE. Now I would like you to fill in the numbers that correspond from the HUD-1. You may need to add some numbers from the HUD-1. Feel free to use the calculator if you want to.

Again, let the person fill in the crosswalk with the information from the HUD-1. Give them 20 minutes to do this. If they get stuck on certain parts, urge them to continue on to the next line or portion of the form. After 20 minutes, stop them and move to the next section.

Task 4: Questions about crosswalk and the HUD-1 (5 minutes)

Thank you for working with those forms and trying to complete the crosswalk. Your observations will be very helpful in making revisions to the crosswalk. We would like to follow up with a few questions about the comparison. I am going to give you a new crosswalk with all of the numbers filled in correctly. [*Hand subject copy of the comparison sheet with the numbers filled in correctly.*] Please refer to this when we are talking about the comparisons.

1. In looking at the comparison table, are the charges at settlement all exactly the same as on the loan offer?

2. Which charges increased at settlement? How much did they increase?
3. Did any of the charges increase more than they were allowed to? Which ones?

[Use any time remaining to ask any follow-up questions that have occurred during the interview. If you do not have any questions, let the subject go after thanking them.]

You have been very helpful today. We just have a few more questions...
Thank you for your time and all the helpful information you have given us.
If you have any comments about this testing session or the questionnaire, please write to Bill Reid, U.S. Department of Housing and Urban Development, 451 7th Street SW, Washington, DC 20410. We appreciate your help! You can pick up your payment at the desk out front [*or wherever the testing facility designates*].

Moderator's Script for Condition 4

Introduction (15 minutes)

Introduce yourself (and your partner, depending on the configuration of the room):

I'm *[your first name]* and this is *[partner's first name]*. We work for the Kleimann Communication Group in Washington, DC. Today, we're going to show you several forms that the U.S. Department of Housing and Urban Development has developed to help homebuyers better understand closing costs and settlement costs as they prepare to buy or refinance a house. They want to get your reactions now, to see if the changes they are thinking of making are on the right track.

For our project today, we will be videotaping our conversation and *[partner—if in the same room]* will be taking notes to help us remember what you say. We videotape the conversations only to help us review what happened after we are finished today. We are most interested in making you comfortable with this procedure, and we also want to assure you that everything you say and do is confidential. If you really prefer us not to tape this session, please let us know now.
[pause]

We do not share your name or other information about you with HUD. We report our results to them without identifying people by name. During this testing session do you mind if we call you by your first name? We would like to keep our discussion with you confidential, and the easiest way would be for us to use our first names. Is this okay?

I am going to ask you to perform several tasks that involve these new forms. I will also have some questions to ask, but please remember, there are no right or wrong answers. We are not testing you. We are testing the forms and how well they accomplish what HUD wants them to.

We want to learn from you so that we can improve the forms. We're especially interested in anything you think might be confusing or hard for other people to understand.

You should also know that I didn't design the forms, and you won't hurt my feelings, no matter what you say about them. So feel free to say what you think.

Confidentiality Agreement

What you say will be confidential. We won't connect your name with anything you say. Again, we don't identify you in any way, so your answers are also confidential.

I am going to give you an agreement which explains how we keep the information you provide confidential and how you can stop participating at any time, or not answer questions that we might ask. Of course, we would like you to participate to the fullest that you can.

Hand the confidentiality agreement to the person.

If you agree to the terms, please print your name, and then sign and date it, and I will take it back for our records.

Take back the signed form. Give them a copy of the form to keep.

Thank you.

Questionnaire

We are going to begin by asking you to fill out a brief questionnaire. Again, your answers are completely confidential. We do not have you fill out your name on the questionnaire, so your answers cannot be identified as yours. Please feel free to give honest and complete answers to the questions. If you have a question or trouble with any of the questions, please let me know, and I will help you.

Hand the questionnaire to the person and wait for the person to complete the form. When the person is finished, place the questionnaire in an envelope and close it.

Thank you. Now, we can begin the most important part of today's work.

Introduce think-aloud procedure

Today's interview will take no more than one and a half hours. In this time, we are going to have you work with several documents that I will give to you shortly.

When I do, I will also tell you what I want you to do. Part of what I want you to do is to describe what you are looking at in the document. That means you have to speak up and tell me what you see in the document; when you turn a page, tell me which page you are on, and what you see and read. I also want you to share with me any ideas, questions, suggestions, or confusion that you might have about the document and any part of the document.

I know that this might seem unusual, especially if you are quiet, but it is important that we hear what you are thinking about as you look at a form, what you see, and what you are doing. If you are quiet, I will ask you questions. Remember, we are not testing you or what you say about the document I hand you. We want to understand what works and what doesn't work in the document.

Let's take some time to practice so that you can get the idea. Here is a menu from a restaurant. You are trying to decide whether you want to eat there. Take a look at the menu and tell me what you thinking, reading, and doing.

What is the first thing you notice on the menu?

Give the person the menu and allow the person several minutes to try out the protocol. Get them comfortable with talking about what they are looking at, reading, voicing questions, confusion, and decisions. Ask them what they are reading, where they are looking, and when they can make a decision.

Good. You understand what we want!

Any questions before we get started?

Task 1: Undirected observation of the test subject with the sample MPO (15 minutes)

The purpose of this task is to allow the subject to become familiar with the MPO and also provide further observation of the way a subject works with the MPO. This think-aloud should be handled the way the think-aloud is handled in the other interviews. At the end of 10 minutes you must cut off the think-aloud in order to allow time for the other parts of this interview.

Okay. In a moment, I am going to hand you a new form that HUD has developed. This form is called the Mortgage Package Offer, or MPO. This is a form you receive when you are interested in buying a new home and are looking for a mortgage. I would like you to imagine that you have been looking for a new home and you have located one that you would like to buy for \$120,000. You are planning to put \$20,000 down on the house. Now you are in the process of trying to arrange for a mortgage loan for \$100,000. You have received this estimate from one of the financial institutions interested in giving you a loan.

Once I give you the form, please start talking aloud, telling me what you notice and react to. Please tell me which page you are looking at on the form, and the part of the page that you are looking at. Remember to tell me what you like about what you see, what you are confused about, and what else you are thinking about.

Please read this document in the fashion that you normally would. You don't have to read all of the document or read it in any particular order. Use your judgment and tell me why you look at the parts of the document that you do read.

I might interrupt you to ask you questions, especially if you are quiet.

Ready? [*Hand subject copies of the three forms*] Here is what you have received in the mail from a lender who wants to give you a loan.

To help get you started, what is the first thing you notice and feel?

Interviewer: Prompt whenever the person moves to another form. Also, when the person turns to another page, ask what he or she is looking at. Remind them to tell us what they are thinking, what they like and dislike, and what they understand and what they don't understand.

OK. That was very helpful for us.

Now I am going to give you another MPO to look at. [*Hand subject copy of second MPO*] This is another estimate that you received from another source. Please take a moment to look it over. Tell me what you are thinking as you look it over. [*Allow time for the subject to look at this MPO and record their observations.*]

I would like you to compare the two MPOs that you have. Remember these are two potential loan offers with estimates of the costs you will have to pay when you buy the house.

1. Which of these estimates seems to be the better deal? [Pause for answer]
Which one would you choose for your loan? [Pause for answer] Why?

[*After they have gone over the form*] OK. That was very helpful for us.

Let's go on to another form.

Task 2: Undirected observation of the test subject with the crosswalk and the HUD-1 settlement statement (10 minutes)

For the next part of our work with you, we want you to imagine that the first offer you have just been working with is the one you have decided to choose for your new loan. Now it is the day before settlement and you have received the HUD-1 settlement statement that lists the exact charges that you will be facing at settlement. [*Hand subject copy of HUD-1*] You want to compare the MPO you received previously with the exact charges at settlement. In order to help you do that HUD has devised a comparison sheet. [*Hand subject copy of the crosswalk*]

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We are primarily interested in the reactions to the crosswalk here. They may spend a lot of time studying the HUD-1 in order to understand the crosswalk. However, our objective is to get their reactions to the crosswalk. Do not encourage them to give lots of feedback on the HUD-1 because that form is not being revised. Time them and move to the next section after ten minutes.

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Take a ten-minute break here to allow the person to relax and for you to collect your thoughts and record any important observations that you were not able to during the activity. If you confer with your team partner, make sure that you talk somewhere where the test subject cannot hear you.

Task 3: Working with the crosswalk (35 minutes)

Thank you for giving us that information. We would now like you to fill in the crosswalk with the numbers from the MPO first. You decided to use the recommendations from Maple Home Loan

Let the person fill in the crosswalk with the information from the MPO. Give them 15 minutes to do this. After 15 minutes, stop them and give them a correctly completed crosswalk with the numbers from the MPO filled in, but not those from the HUD-1.

Thank you for working with these forms. I am going to give you a clean worksheet with the numbers filled in already from the MPO. Now I would like you to fill in the numbers that correspond from the HUD-1. You may need to add some numbers from the HUD-1. Feel free to use the calculator if you want to.

Again, let the person fill in the crosswalk with the information from the HUD-1. Give them 20 minutes to do this. If they get stuck on certain parts, urge them to continue on to the next line or portion of the form. After 20 minutes, stop them and move to the next section.

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[Use any time remaining to ask any follow-up questions that have occurred during the interview. If you do not have any questions, let the subject go after thanking them.]

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