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 The RESPA reform final rule that the testing was initially designed to support was withdrawn in 2004.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 fourth and fifth rounds of testing and reports on the test results (the tested forms and testing scripts are in the volume 2 file). Rounds 4 and 5 were primarily quantitative tests of the consumers' ability to use the forms to identify the lowest cost loan, and show that the design of the Yield Spread Premium disclosure required of mortgage brokers was successful in eliminating consumer bias against brokers in identifying the lowest cost loan.

Testing HUD's New Mortgage Disclosure Forms With American Homebuyers

Rounds 4 & 5

Volume 1: Results

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

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Prepared for:

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

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Executive Summary

Issue

On July 29, 2002, the U.S. 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. As part of the RESPA rule, HUD proposed a revision to the existing Good Faith Estimate (GFE) and the development of new forms, among which was the Guaranteed Mortgage Package Agreement (GMPA). HUD intends for these forms to be used by mortgage brokers and lenders to provide borrowers with accurate and dependable estimates of their closing costs.

HUD had several goals in revising these forms, including:

- The forms should be used by borrowers as a means of comparison shopping for mortgages,
- The trade-off between the interest rate and up-front fees should be clearer and more easily understood by the borrower,
- The role of the loan originator, whether as a lender or broker, should be clear,
- The forms should provide borrowers with a clear understanding of the different settlement fees, and
- The borrowers should be able to match the numbers on their GFE or GMPA to the HUD-1 form (which is normally provided at settlement).

HUD's ultimate goal, therefore, is to help borrowers become better consumers by providing them with more information on the costs they should expect when buying a home.

Background

The U.S. Department of Housing and Urban Development subcontracted with Kleimann Communication Group, Inc.,[1] (KCG) through a contract with Aspen Systems to redesign, test, and ensure that the GFE and GMPA met the Department's goals. Using both qualitative and quantitative consumer testing, KCG studied how to: (1) fine-tune and develop GFE and GMPA that ensure consumers can use them in the way intended (qualitative research) and, (2) validate with objective measures the performance of consumers as they use the GFE form (quantitative research).

[1] Kleimann Communication Group, Inc. is a woman-owned, small business that specializes in developing, designing, testing, and researching consumer-based forms.

During October/November 2002, KCG met with key subject matter experts at the Department to discuss the goals and key messages for the forms as well as potential problems and issues. Based on these discussions, KCG developed initial drafts of the two forms. In December 2002, KCG tested 45 participants using one-on-one in-depth interviews to determine problems consumers had in understanding and using the forms. Based on analyses of these data, KCG revised both the GFE and GMPA (now the Mortgage Package Offer). In January 2003, a second round of in-depth interviews with an additional 45 consumers resulted in further refinements. During June and July 2003, HUD experimented with an alternative presentation of information about the yield spread premium (YSP) and discount points. The results of 60 in-depth interviews suggested that the January 2003 presentation resulted in better consumer understanding and performance. HUD returned to the January 2003 design

During 2003, the Federal Trade Commission (FTC) conducted a quantitative study of extracts from the GFE only, which suggested discrepancies between its results and the qualitative results obtained in Rounds 1, 2, and 3. FTC's study[2] used extracts of the GFE and three objective questions to test the effect of the YSP disclosure information on consumers. Their data suggested that (1) consumers found the inclusion of the YSP information confusing and (2) a potential bias against brokers existed. This was not the intent of the Department's proposed forms.

As a result of FTC's data, HUD hypothesized that more context would simplify — not complicate — the consumers' task to understand the YSP information. As a result, HUD concluded and then tested whether consumers would be better able to identify and select low-cost loans if they used complete GFE forms, rather than extracted sections of the GFE.

Methodology for Testing in Rounds 4 and 5

In December 2003, the Department created a parallel study to the FTC's, using a sample size of 600 participants in 5 cities. The GFE study contained similar questions, moderator guides, and loan options. Unlike the FTC study, the HUD study used full-length GFEs that were filled in with dummy data.

As part of consumer testing, participants were given either sets of GFEs with the YSP disclosure included or sets of GFEs with the YSP disclosure excluded. One set of loan offers contained a broker loan offer that cost less, while one set had loan offers that cost the same. Participants were asked to identify: (1) the loans that cost less, (2) the loans they would choose from the pair, and (3) why they chose the loan they did. Analysis of the answers to the open-ended questions in Round 4 identified

[2] *The Effect of Mortgage Broker Compensation Disclosures on Consumers and Competition: A Controlled Experiment* (2004)

areas of misunderstanding and based on these data, KCG modified the GFE language and layout to improve results, especially with regard to the YSP disclosure.

In February 2004, Round 5 of the testing included 600 participants in the same five cities and paralleled the study design and methods of Round 4. All of the GFEs tested in Round 5 included YSP information. However, one-half of the participants received a 2-option GFE and one-half received a 3-option GFE. In addition to the GFEs in which the broker loan offer cost less or the loan offers cost the same, a pair of loan offers were added in which the lender loan offer cost less.

The study also added a four-way comparison and 300 participants were shown a mortgage comparison chart intended to facilitate comparisons of multiple GFEs. As a further condition of the four-form comparison, 150 received explicit instructions to use the comparison chart to help choose the loans that cost less. The remaining 150 participants were not given instructions to use the comparison chart.

Results in Brief

The test, revise, retest cycle of Rounds 4 and 5 resulted in modifications to the GFE and markedly improved performance by consumers.

The Round 4 test results showed good performance by consumers, but that consumers were misunderstanding the YSP information and that their misunderstanding affected which loan they would choose.

- In different cost loans and when the YSP was not disclosed, HUD and FTC results were nearly identical. In the HUD study, 92 percent saw the broker as cheaper and 88 percent would choose it. In the FTC study, 90 percent recognized the loan cost less and 85 percent chose it.

- In different cost loans with the YSP disclosed, 83 percent of the participants saw the broker loan was cheaper and 72 percent said they would choose it. In contrast, in the FTC study, 72 percent saw the broker loan as cheaper and 70 percent said they would choose it.

- When the cost was the same in the two offers and when the YSP was not disclosed, HUD and FTC results were nearly identical. In the HUD study, 95% identified the loans as costing the same and 90% chose either. In comparison, in the FTC study, 95% also identified the loans as costing the same and only 78% chose either.

- When the cost was the same in the two offers with the YSP disclosed, performance fell. For a same cost loan with YSP, 81 percent saw that the loans cost the same, but only 50 percent would have chosen either. In the FTC study, only 53 percent saw the loans cost the same and only 25 percent had chosen either.

- Analyses of the open-ended questions showed confusion based on the phrasing of the YSP explanations, a suspicion about the credit in the GFE tested, and some confusion over whether to look at the origination fees or adjusted origination fees to determine cost.

Based on these results, KCG changed the language of the YSP disclosure, added a third option to explain that credits and changes could be included in origination fees, and added arrows to emphasize summary information. All GFEs included the YSP disclosures.

- The 3-option GFE consistently performed better than the 2-option GFE and reduced suspicion about the credit/charge of the YSP disclosure.

- For the GFE with the broker loan cheaper, 92 percent identified it as cheaper and 88 percent chose it as cheaper. This result is an improvement over both Round 4 and FTC results.

- For the GFE with the lender loan cheaper, 93 percent identified it as cheaper and 89 percent chose it. Neither Round 4 nor FTC tested this scenario.

- For same cost loans, results showed a dramatic improvement. In this test, 92 percent identified the loans as costing the same, and 70 percent said they would choose either loan. These results are in contrast to Round 4 results of 81 percent and 50 percent and in contrast to FTC results of 53 percent and 25 percent.

- Results for the four-form comparisons showed even greater improvement, especially if participants used the mortgage comparison chart. When the broker loan was the cheapest of the four loans, 92 percent identified the broker as cheaper. When participants used the comparison chart, 97 percent chose the cheapest loan. The combined result for correct choices was 95 percent.

- For the comparison when two loans were the same cost and were the cheapest, 41 percent chose the broker and 49 percent chose the lender loan. With the use of the chart, 57 percent chose the broker and 35 percent chose the lender. These results suggest little or no bias against brokers.

Discussion

Round 4 Results. Round 4 results showed both consistency and divergence with the FTC results.

When the broker offer was cheaper. Two sets of complete GFEs were presented, one with the YSP disclosed and one with it removed. When the YSP was disclosed, 83 percent of the participants correctly identified the broker loan as cheaper, and 8 percent incorrectly identified the lender as cheaper. These results are an improvement over the FTC results of 72 percent and 17 percent. In this GFE scenario, 72 percent of the participants said they would choose the broker loan offer and 11 percent said they would choose the lender. Similarly in the FTC study, 70 percent of the participants chose the broker offer and 16 percent chose the lender offer.

When the YSP disclosure was removed, 92 percent correctly identified the broker loan as cheaper, and one percent incorrectly identified the lender as cheaper. These results are quite similar to FTC's results of 90 percent and 4 percent. When asked to choose a loan, 88 percent of participants chose the broker offer, while one percent chose the lender loan. These results compare to 85 percent and 3 percent respectively in the FTC testing.

When offers cost the same. When given same cost loan offers with a YSP, 81 percent correctly identified both loans as costing the same; 15 percent incorrectly identified the lender as cheaper; and three percent incorrectly identified the broker as cheaper. In contrast, only 53 percent in the FTC study correctly identified the offers as costing the same; 30 percent incorrectly identified the lender as cheaper; and 11 percent incorrectly identified the broker as cheaper. In this GFE scenario, 50 percent of participants would have chosen either offer; 39 percent chose the lender offer; and only five percent chose the broker. In contrast in the FTC study, only 25 percent chose either offer; 46 percent chose the lender offer; and 17 percent chose the broker's offer.

The drop between the number of participants who identified a loan as lower or loans costing the same and the number who would choose as expected (the lower loan or either) suggested influences besides cost. Analysis of the qualitative responses to "Why did you choose this loan?" identified several possible sources and four primary trends emerged. First, the language about the YSP referred to "the charge for a higher interest loan." Many participants commented that they wanted a lower interest loan and thus chose the bank offer without a credit. Second, many participants looked at the origination fee to determine which loan offer was cheaper rather than focusing on the adjusted origination fee or the total settlement costs. Third, some participants disliked the presence of the YSP or discount points commenting on it as "tricky" or such. Fourth, some participants commented that the $300 difference in closing costs were insufficient to force a choice.

Round 5 Results. Based on the data from Round 4 results, the Department instituted several changes to the GFE. Language about the YSP was changed to repeat the interest rate and the loan amount. Arrows were added in the margins of page 1 to emphasize total and sub-total amounts. To mitigate the responses that were negative about the YSP credit, the Department added a third option to check when credits and charges were included the origination fee and not broken out separately. In addition, for the comparison GFEs, the amount of the difference in cost was increased to $500. In addition, the Department decided to test only forms which included the YSP. These changes to the GFE resulted in substantially better performance.

The 3-option GFE and the 2-option GFE performed similarly with the 3-option form consistently getting slightly better results. Although some participants continued to comment negatively about "points" or credits, the number of comments decreased and a few participants commented on liking the breakout of YSP and discount points.

When the broker offer was cheaper. In the GFE scenario in which the broker was cheaper, 92 percent correctly identified the broker as the cheaper loan offer. This result represents an improvement over the 72 percent reported by the FTC study and the 83 percent reported in Round 4's results. Only three percent incorrectly identified the lender as the cheaper loan offer, but again an improvement over the 17 percent reported by the FTC and eight percent in Round 4. When asked to choose a loan, 87 percent of the participants chose the cheaper broker loan, compared to 70 percent of the participants in the FTC study, and 72 percent in Round 4. The success rates for the 2-option form are almost as good, just a percentage point or two below the 3-option form.

When the lender offer was cheaper. In the GFE scenario in which the lender loan cost less, 92 percent of the participants correctly identified the lender as the cheaper loan offer. A mere one percent incorrectly identified the broker as cheaper. When asked to choose a loan, 89 percent chose the lender loan and less than one percent (0.3) chose the broker. Again, the 2-option form results are similar to the 3-option results.

The purpose of testing the case in which the lender was cheaper than the broker was to test for bias by seeing if the GFE forms performed equally well when either the lender or broker was the cheaper loan. A comparison of the results (92 percent vs. 92 percent, 3 percent vs. one percent, 87 percent vs. 89 percent, and 3 percent vs. 0.3 percent) provides no support for the charge of anti-broker bias when the loans have different closing costs. Additionally, these results reflect a large sample of loans.

When offers cost the same. In the GFE scenario in which the broker and lender loan offers were of equal cost, 90 percent of the participants were able to correctly identify that fact. This result compares very favorably with the 53 percent reported by FTC and the 81 percent from Round 4. Participants in Round 5 misidentified the lender as cheaper only seven percent of the time, a large improvement over the 30 percent in the FTC results and 15 percent in Round 4. Participants misidentified the lender as cheaper one percent of the time as compared to 11 percent in the FTC study and three percent in Round 4. Participants said they would choose either loan 70 percent of the time, a dramatic increase over the 25 percent in the FTC study and the 50 percent in Round 4. Twenty-one percent said they would choose the lender as compared to 46 percent in the FTC study and 40 percent in Round 4. Four percent chose the broker compared to 17 percent in the FTC study and five percent in Round 4. The 2-option form results in Round 5 show the same basic sizeable trend in success rates and reduction in bias.

Four-form Comparison Results. Participant performance on the four-form comparison is impressive. In the comparison in which the broker loan offer of $6,100 is the cheapest, 92 percent of participants who were not verbally reminded to use the comparison worksheet correctly reported the $6,100 broker loan as the cheapest. Three percent incorrectly identified the $6,400 lender loan as the cheaper loan. These results are the same as for the paired comparison discussed earlier where the broker was $500 less. Interestingly, very few of the participants who were not verbally reminded to use the comparison worksheet used it.[3] When instructed to use the comparison sheet, 97 percent correctly identified the $6,100 broker loan as the cheapest, and none wrongly picked the $6,400 lender loan. The overall success rate for correctly identifying the correct loan as the cheapest for both those getting and those not getting the verbal instructions to use the comparison worksheet was 95 percent, with only one percent misidentifying the lender as cheaper.[4]

In the case where both loans cost the same, participants were told to choose a loan. When no verbal instructions were given to use the comparison sheet, 41 percent picked the broker loan as cheaper and 49 percent picked the lender loan. With verbal instructions to use the worksheet, 57 percent picked the broker at $6,500 and 35 percent picked the lender at $6,500. The results in both cases suggest that participants were more discriminating among various factors when more than two bank offers were in front of them and that in same cost situations, they chose between broker and lender in fairly even numbers.

Recommendations

Retain the 3-option YSP. Both the 3-option and 2-option GFE forms performed well; however, the higher results and better comprehension of the 3-option GFE suggest that the 3-option GFE should be retained.

Retain the revised language. The GFE language was revised to reduce the possibility of borrowers' misinterpreting that the interest rate had changed from what was reported on the first page. A third option was added to the YSP/discount points section on page two so lenders could indicate their credits or charges were already included in "Our Service Charge." This addition was designed to mitigate the sense of some participants that credits and charges were not straightforward.

[3] This lack of use may be attributed in part to the constraints of being in a timed testing situation.

[4] A success rate of 95 percent may be as high as one could expect in this kind of testing. This is the same success rate the FTC got when they gave borrowers two equally costly loans, one from a broker and one from a lender, without the YSP disclosed. In other words, where borrowers got two identical forms with identical loan data on them, only 95 percent could figure out they were the same.

By retaining the revised language, the GFE will continue to allow consumers to determine which offer is less expensive more easily.

Retain the summary-line arrows. The arrows were added to focus the participants' attention on the subtotals and the total estimated charges rather than the individual components of the GFE. The summary-line arrows were successful in focusing participant's attention on the subtotals and total estimated charges, allowing them to clearly see and understand the bottom-line costs.

Retain the Mortgage Shopping Chart as a permanent part of the GFE and MPO (as a new page four). The Mortgage Shopping Chart allowed participants to conduct a four-loan comparison. The Mortgage Shopping Chart was successful in helping participants compare four-loans on one worksheet. The overall reaction of participants was that the chart was very helpful in aiding their comparisons of several loans and allowing them to see which loan was cheapest overall.

Sponsor an Education Campaign. Consumers remain unclear about the intent and purpose of the Yield Spread Premium. Providing consumers standalone directions for the GFE and MPO and making those available via the Internet and mail will help to educate consumers on the intent and purpose of the YSP and allow them to better understand and use the GFE and MPO.

Conclusions

The extensive consumer testing of the GFE and the resulting revisions suggest a number of conclusions.

1. Participants are highly successful in identifying the cheapest loan with success rates in the 90+ percent range whether the broker loan is cheaper, the lender loan is cheaper, or the loans cost the same.

2. Broker bias does not appear. The success rate for participants identifying the cheapest loan offer is the same whether the broker loan or lender loan offer is cheaper and the drop-off rate from identifying the cheaper loan to deciding which one to choose is about the same for brokers as it is for lenders.

3. This success rate is maintained when the number of loan offers increases, suggesting that, to some extent, additional context eases the task of differentiating among the offers for consumers. Rather than overwhelming consumers, the additional loan offers help them to focus on the key information.

4. The bias that does show up in the paired comparisons in which both loans cost the same is actually against the lender in the four-way comparisons, undercutting the suggestion that broker bias exists, even in the very unlikely case of a tie.

5. The new GFE will improve the ability of the consumer to shop. The presentation is simpler, with a combined figure for each functional category, so that borrowers are less likely to be overwhelmed by detail. The additional graphic elements help to guide consumers to the bottom line rather than elements of the offer. Tolerances make the estimates on the GFEs more reliable which will make it more likely that decisions based on this information will make the borrower better off. The trade-off table and language encouraging consumers to shop help consumers more clearly understand their options.

These factors make it likely that consumers will obtain loans at lower cost. When borrowers are able to compare across offers knowledgeably and can select loans with more favorable terms, they assume more control over their decisions. The revised GFE helps to demystify the often confusing and overwhelming process of financing the purchase of a house. It empowers the consumer.

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Chapter I: Introduction

On July 29, 2002, the U.S. 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 of obtaining home mortgages. As part of the RESPA rule, HUD proposed a revision to the existing Good Faith Estimate (GFE) and the development of new forms, among which was the Guaranteed Mortgage Package Agreement (GMPA). HUD intends for these forms to be used by mortgage brokers and lenders to provide borrowers with accurate, dependable estimates of their closing costs.

Among HUD's main goals in revising these forms:

- The forms should be used by borrowers as a means of comparison shopping for their mortgages,
- The trade-off between the interest rate and up-front fees should be clearer and more easily understood,
- The role of the loan originator, whether as a lender or broker, should be clear,
- The forms should provide borrowers with a clear understanding of the different settlement fees, and
- The borrowers should be able to match the numbers on their GFE or GMPA to the HUD-1 form (which is normally provided at settlement).

HUD's ultimate goal, therefore, is to help borrowers become better consumers by providing them more information on the costs they will encounter when buying a home.

Kleimann Communication Group, Inc. (KCG), through a subcontract to Aspen Systems and the U.S. Department of Housing and Urban Development (HUD) was tasked with assisting in the redesign of HUD's Good Faith Estimate (GFE) form, clarifying the language of the redesigned form, and testing the additions and revisions to the form in a large-scale, nationwide study. Accordingly, KCG assisted in the redesign and development of the forms in a five-round iterative testing cycle.

In the first round of testing, work was mainly geared toward building and revising the forms to produce a set of forms that would be involved in consumer testing. This work was driven by the need to simplify both the language and the layout of the GFE and was carried out by HUD and KCG while future revisions to the forms were driven by consumer testing.

In 2003, the Federal Trade Commission performed its own round of consumer testing based on the changes that were being made to the GFE form. The FTC's objective was to study whether the yield spread premium disclosure unfairly biased consumers against mortgage brokers. Thus, the FTC extracted sections of the new GFE, specifically the yield spread premium disclosure, and tested only those sections that the FTC believed would create an unfair bias against mortgage brokers. Because of the lack of context in the FTC study, their data suggest that consumers would (a) become confused when the yield spread premium was disclosed and (b) become biased against brokers as a result of the disclosures made in the yield spread premium. Because the whole form was not tested by the FTC and the consumer had no context against which to compare and contrast the yield spread premium information, the FTC reported a significant bias against brokers.

As a result of the FTC study, the Department directed another round of consumer testing on the GFE (Round 4). In late 2003, HUD directed KCG to mirror aspects of the FTC study (such as studying the GFE forms both with and without the yield spread premium disclosure); however, HUD wanted to keep the yield spread premium in context by testing the entire GFE, rather than just extracted yield spread premium disclosures.

In the Department's study, both new and experienced homebuyers were part of the subject pool with demographic representative of the U.S. population to ensure that the study covered a diverse range of incomes, ethnicities, educational backgrounds, and age groups. In addition to demographic considerations, KCG made a conscience effort to recruit participants from low-education and low-income groups who have had past experience shopping for a mortgage loan.

The data from the Round 4 testing were then used to make improvements to the GFE form. The revised GFE was the basis for another round of consumer testing, in which data was collected to see how well the forms worked as a result of the consumer-driven changes to the GFE.

This report provides an overview of the study design and methodology, demographic sample, discussion of results from Round 4 and from Round 5, study recommendations, and conclusions from Rounds 4 and 5 of testing. Additionally, a stand-alone volume of appendices contain the following study materials:

Appendix A

- Round 4 Screening Protocol
- Round 4 Participant Confidentiality Statement and Consent Form and Demographic Questionnaire
- Round 4 Good Faith Estimate (GFE) Forms, Without Yield Spread Premium (YSP)
- Round 4 Good Faith Estimate (GFE) Forms, With Yield Spread Premium (YSP)
- Round 4 Test Administration Protocol and Participant Answer Sheet

Appendix B

- Round 5 Screening Protocol
- Round 5 Participant Confidentiality Statement and Consent Form and Demographic Questionnaire
- Round 5 Good Faith Estimate (GFE) Forms, With 3-option Yield Spread Premium (YSP)
- Round 5 Good Faith Estimate (GFE) Forms, With 2-option Yield Spread Premium (YSP)
- Round 5 Four-Form Comparison, Packet A
- Round 5 Four-Form Comparison, Packet B
- Round 5 Test Administration Protocol and Participant Answer Sheet

Chapter II: Study Design and Methodology

In Round 4 of GFE testing, the study objectives were to: (1) emulate certain aspects of a yield spread premium study conducted by the Federal Trade Commission (FTC), and (2) use qualitative and quantitative research to see how improvements to the GFE helped consumers to choose lower-cost loans.

For Round 5, the objectives were to: (1) test a 3-option yield spread premium (YSP) versus a 2-option YSP Good Faith Estimate; (2) verify language changes to the origination charges section of the GFE; (3) assess the addition of arrows to the design; and (4) test the Mortgage Shopping Chart (MSC) as an additional condition to the 3-option YSP GFE.

The major overall objective was to collect data to see how well the revised forms work both in structured one-on-one testing[5] and in small-group sessions. To this end, in Round 4, three study questions helped to determine how well the forms worked (see ***Volume II: Appendices***). These study questions included:

1. Which of these two offers will cost you less or will they cost the same amount?

2. If you were shopping for a mortgage loan and these two offers were the only ones available, would you prefer one of these offers or are both equally attractive to you?

3. Please tell us briefly why you chose the answer that you did to question 2.[6]

In Round 5 of the GFE testing, the questions were identical with the exception of an additional qualitative question:

1. Based on the information in these two offers, which of these two offers will cost you less or will they cost you the same amount?

2. Why did you choose that answer?

3. If you were shopping for a mortgage loan and these two offers were the only ones available, would you prefer one of these offers or are both equally attractive to you?

4. Please tell us briefly why you chose the answer that you did to question 3.[7]

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[5] One-on-one testing was held during the Round 5 pretest, at which time we tested the new graphic elements of the GFE.

[6] Copies of Round 4's Testing Materials can be found in Volume II: Appendices, Appendix A.

[7] Copies of Round 5's Testing Materials can be found in Volume II: Appendices, Appendix B.

Round 5 testing contained a further condition that studied the effect of the Mortgage Shopping Chart on consumers' decisions. Half of the sample who received the Mortgage Shopping Chart was asked one or two further questions, such as:

1. Which of the four loan offers would cost less, and
2. If the Mortgage Shopping Chart was helpful, and why.

The object in studying the Mortgage Shopping Chart was two-fold. One question was if people would naturally use such a comparison chart when they received more than two loan offers at once. The second question was to determine how well people identified the cost of loan offers when they were specifically instructed to use the comparison form.

Study Design

In both Rounds 4 and 5, KCG tested a combined total of 1,200 diverse participants in five sites. The sites for the testing were Atlanta, Boston, Denver, Seattle, and Tulsa.

In Round 4, four form variations were tested:

1. Different cost loan without YSP
2. Different cost loan with YSP
3. Same cost loan without YSP
4. Same cost loan with YSP

Each set of forms contained a broker and a lender loan and each participant saw two sets of loan offers. To limit bias, we used 16 different rotations for presenting the loan offers.

In Round 5, we tested two different GFE forms: one with a 2-option YSP section and one with a 3-option YSP section which included the Mortgage Shopping Chart. To test the GFE, we split our sample into two sub-samples of 285. Three hundred participants received the GFE with a 2-option YSP while 315 participants received the GFE with a 3-option YSP section.

To test the Mortgage Shopping Chart, we split our 3-option YSP sub-sample into a further sub-sample of two groups of about 150 participants, half of whom received instructions to use the MSC. The remaining sub-sample did not receive instructions to use the MSC.

We then set up eight variations to test the forms. The variations — in which L represents a lender offer and B represents a broker offer — were:

1. Same cost loan with 2-option YSP (L$6,500 vs. B$6,500)
2. Different cost loan with 2-option YSP (L$6,600 vs. B$6,100)
3. Different cost loan with 2-option YSP (L$6,400 vs. B$6,900)
4. Same cost loan with 3-option YSP (L$6,500 vs. B$6,500)
5. Different cost loan with 3-option YSP (L$6,600 vs. B$6,100)
6. Different cost loan with 3-option YSP (L$6,400 vs. B$6,900)
7. Four-form comparison (B$6,500 vs. L$6,600 vs. B$6,100 vs. L$6,500)
8. Four-form comparison (B$6,500 vs. L$6,600 vs. B$6,900 vs. L$6,500)

Each set of loan offers contained a broker and a lender loan offer, and each of the 600 participants saw a total of three sets of loan offers. To limit bias, we used 12 different rotations for presenting the different loan offers. At the end of the GFE study, 300 of the 600 participants saw an additional packet of four loan offers for a side-by-side comparison. A further condition of this sample was the study of the Mortgage Shopping Chart. Of the 300 who saw the four-form comparisons, 150 were given directions to use the comparison chart while the other half was not.

Unlike Round 4, Round 5 loan-originator names did not contain the words "bank," "financial," or any other prejudicial term. In Round 5 of the testing, the only way for a subject to identify whether the originator was a lender or a broker was by examining the YSP section.

All of the Round 4 and Round 5 testing materials appear in ***Volume II: Appendices***.

Analytic Approach

Database. The answer sheet responses were entered into a Microsoft Access© database. Once all of the data had been entered into the database, the data were cleaned by conducting a quality assurance check on the integrity of the data. In the process of cleaning the database, researchers looked for participant responses where the participant was clearly looking at the wrong materials or failed to answer any of the questions. These invalid responses were removed from the database to ensure the integrity of the data being analyzed.

Qualitative and Quantitative Analysis. After the database was cleaned, the data was exported from Microsoft Access© into SPSS©, where frequencies were calculated for all of the questions, with the exception of the open-ended questions.

Qualitative analysis is extremely important in any research design because it allows researchers further insights into the study's results. For example, Round 4 testing showed that the vast majority of participants chose loans according to cost. However, some participants identified the cheapest loan, but chose another, more expensive loan. Through qualitative analysis in Round 4 testing, KCG researchers learned that many participants felt that $300 was not enough of a difference in closing costs to influence their decisions. Some participants believed issues like convenience and personal experience with a broker or lending institution would overshadow the $300 difference in closing costs. This led KCG and HUD to change the difference in closing costs between loans to $500 for Round 5 testing (except in the four-form comparisons). This change had a significant impact on resolving this discrepancy and helped clarify the consumers' decision making process.

Using a grounded theory approach, researchers reviewed all of the responses for each comparison made and then created a unique coding system for that particular comparison. After responses for each comparison were coded, the results were compiled using the cleaned Microsoft Access© database. Kleimann then reviewed these final results, created matrices to organize those results, and determined what those data meant in terms of the other results as well as how to revise the GFE.

Round 4 Methodology

For Round 4, HUD asked KCG to parallel aspects of the FTC study, including the questions asked, the difference between the amounts of each offer, and the length of the test situation. However, because the Department thought that the context of the entire form might provide a more accurate measure of participants' understanding of the GFE, the study design used a full-length GFE rather than the extract from the FTC study. For each site, 120 participants mirroring the demographics of the U.S. Census were selected.[8]

In Round 4, KCG gave all 600 participants full-length GFEs. The control group — 285 participants — received GFEs that omitted the YSP disclosure, while the experimental group — 315 participants — received GFEs with the YSP disclosed. Each participant was given two pairs of loans: one in which the broker loan was $300 less than the lender and one in which the broker and lender loan offers were the same cost. Each participant was asked three questions for each set of GFEs: (1) which offer was cheaper or if they cost the same, (2) which offer would they choose, and (3) why they made that choice they did.

Results from the Round 4 study follows in Chapter IV: Discussion of Results — Round 4. Chapter IV also explains how the research in Round 4 was the basis for GFE revisions and the approach to testing in Round 5.

[8] The five cities for Round 4 included Atlanta, Boston, Denver, Seattle, and Tulsa.

Round 5 Methodology

As a result of the testing and analysis, revisions to the GFE included the following: (1) The language in box 2 on page two of the GFE referring to the "higher interest rate" and "lower interest rate" was modified to reduce the possibility of borrowers' misinterpreting that the interest rate had changed from what was reported on the first page. (2) A third option was added to the YSP/discount points section on page two so lenders could indicate that their credits or charges were already included in "Our Service Charge." This addition was designed to mitigate the sense of some participants that credits and charges were not straightforward. (3) Arrows were added on pages one and two to focus the borrower's attention on the subtotals and the total estimated charges rather than individual components. In addition, the point size in the Total Estimated Settlement Charges on the bottom of page one was increased to further draw attention to the bottom-line.

For purposes of testing, three other changes were made to the GFEs. First, the difference in the total cost was changed to $500 to increase the likelihood that the cost difference would be a deciding factor.[9] Second, another pair of loan options was added in which the lender offer was $500 less than the broker offer. This addition was intended to identify any bias for or against the broker and lender options. Finally, we added a set of four loans to verify whether the comparison across more than two offers increased or decreased participant performance. No version was tested without the YSP and discount points language.

Study Methodology. For Round 5, 600 participants were divided into two groups, both of which received the revised GFE.[10] The first group — 315 participants — received the revised GFE with changed language and with the addition of a third option so lenders could indicate that YSP and discount points had been included in "Our Service Charge." The second group — 285 participants — received the identical revised GFE, but the third option box was removed. All participants received three pairs of loans, one with the broker offer being lower by $500, one with the lender offer being lower by $500, and one in which both offers were the same.

To further test whether increased context improved or decreased consumer performance with the revised GFE, the Department asked KCG to give half of the participants a four-loan comparison as well. For this four-way comparison, the Department included a blank worksheet — the Mortgage Shopping Chart — to aid participants in comparing the loans. The worksheet contained spaces for the originator's name, loan amount, interest rate, term, monthly payment, adjusted origination charge, charges for all other settlement services, and total estimated

9 Data from Round 4 suggest that participants found the $300 difference between the loan offers in Round 4 was insignificant.

10 Participants were chosen for demographic diversity in the same five cities: Atlanta, Boston, Denver, Seattle, and Tulsa. No participant from Round 4 was permitted to participate in Round 5.

settlement charges. On page one of the GFE, a sentence telling participants to use the comparison chart to compare offers was inserted. Additionally, half of the participants (those given the GFE with a 3-option YSP) were given explicit verbal directions to use the worksheet.

The participants who received the 3-option GFE were also included in this four-way comparison. Half of them were given a set in which a broker loan offer of $6,100 cost less. The other three GFEs reflected a lender loan offer of $6,400 and lender and broker loan offers in which both cost $6,500. The other half were given a set in which lender and broker loan offers cost the same and were the least expensive at $6,500. In this same set, participants received a broker loan offer of $6,900 and a lender loan offer of $6,600. In addition, only 150 participants received explicit verbal instructions to use the worksheet in their comparison, while half received no instructions. Results from Round 5 appear in Chapter V: Discussion of Results — Round 5.

Chapter III: Study Demographics

In both Round 4 and Round 5 of the testing, the test population was recruited to mirror the U.S. census. As a part of the screening protocol, professional testing sites recruited participants based on the following criteria:

- Gender
- Age
- Education
- Income
- Marital Status
- Race/ethnicity

Additionally, participants were screened based on their experiences in:

- Obtaining a mortgage (whether purchasing or refinancing a home); and
- Shopping for a new mortgage loan.

At each of the professional testing sites, recruiters were provided with the same screening protocol, which they would read when contacting potential study participants. In the course of the call, screeners would ask prospective participants a series of questions that allowed screeners to determine if the individual called was eligible to participate in the study. If a subject was contacted who did not meet those criteria, the call was terminated. Each site was given the same criteria for the number of participants to be recruited in each demographic category. This procedure ensured the study involved participants from a wide range of backgrounds, age and ethnic groups, among other criteria, but who also had either obtained or shopped for a mortgage loan.

Once participants were selected (and after their participation), they were paid an incentive of $50.00. If more participants arrived than were needed or if cancellations occurred, the testing site tried to place or recruit participants who would represent the needed demographics.

Copies of the screening protocols, confidentiality statement and consent forms, and demographic questionnaires are in ***Volume II: Appendices***.

Table III–1 provides demographics for Round 4 testing, and Table III–2 provides demographics for Round 5. Table III–3 provides a comparison of both rounds of testing.

Table III–1. Participant Demographic Information — Round 4

	Number	Percent
Gender		
Female	347	58
Male	252	42
Age		
21 or younger	1	.2
22 to 34	150	25
35 to 44	166	27.7
45 to 54	167	27.8
55 to 64	92	15.4
65 or older	23	3.9
Education		
Less than high school	6	1
High school or GED	99	16.5
Some college or a 2-year college program	182	30.3
College graduate	214	35.7
Graduate School	98	16.3
Income		
Less than $20,000	11	1.8
$20,000 to $39,999	79	13.2
$40,000 to $59,999	153	25.5
$60,000 to $79,999	149	24.8
$80,000 to $99,999	91	15.2
$100,000 or more	101	16.8

Table III–1. Participant Demographic Information — Round 4 (continued)

	Number	Percent
Marital Status		
Married	415	69.2
Single/divorced	177	29.5
Race Ethnicity (participants could select more than one category)		
Hispanic/Latino	25	4.2
American Indian/Alaskan Native	19	3.2
Asian	9	1.5
Black or African American	61	10.2
Native Hawaiian or other Pacific Islander	3	.5
White	512	85.3
Other	—	—

Table III–2. Participant Demographic Information — Round 5

	Number	Percent
Gender		
Female	321	53.3
Male	281	46.7
Age		
21 or younger	2	.3
22 to 34	155	25.7
35 to 44	167	27.7
45 to 54	170	28.2
55 to 64	81	13.4
65 or older	28	4.7
Education		
Less than high school	11	1.8
High school or GED	112	18.6
Some college or a 2-year college program	192	31.9
College graduate	206	34.2
Graduate School	81	13.5
Income (six participants did not answer this question)		
Less than $20,000	15	2.5
$20,000 to $39,999	86	14.3
$40,000 to $59,999	151	25.0
$60,000 to $79,999	140	23.2
$80,000 to $99,999	90	14.9
$100,000 or more	115	19.1

Table III–2. Participant Demographic Information — Round 5 (continued)

	Number	Percent
Marital Status		
Married	409	67.8
Single/divorced	191	31.7
Race Ethnicity (participants could select more than one category)		
Hispanic/Latino	38	6.3
American Indian/Alaskan Native	17	2.8
Asian	10	1.7
Black or African American	64	10.6
Native Hawaiian or other Pacific Islander	3	.5
White	500	82.9
Other	25	4.1

Table III–3. Participant Demographic Information — Side-by-Side Comparison

	Round 4 (Percent)	Round 5 (Percent)
Gender		
Female	58	53.3
Male	42	46.7
Age		
21 or younger	.2	.3
22 to 34	25	25.7
35 to 44	27.7	27.7
45 to 54	27.8	28.2
55 to 64	15.4	13.4
65 or older	3.9	4.7
Education		
Less than high school	1	1.8
High school or GED	16.5	18.6
Some college or a 2-year college program	30.3	31.9
College graduate	35.7	34.2
Graduate School	16.3	13.5
Income		
Less than $20,000	1.8	2.5
$20,000 to $39,999	13.2	14.3
$40,000 to $59,999	25.5	25.0
$60,000 to $79,999	24.8	23.2
$80,000 to $99,999	15.2	14.9
$100,000 or more	16.8	19.1

Table III–3. Participant Demographic Information — Side-by-Side Comparison (continued)

	Round 4 (Percent)	Round 5 (Percent)
Marital Status		
Married	69.2	67.8
Single/divorced	29.5	31.7
Race Ethnicity (participants could select more than one category)		
Hispanic/Latino	4.2	6.3
American Indian/Alaskan Native	3.2	2.8
Asian	1.5	1.7
Black or African American	10.2	10.6
Native Hawaiian or other Pacific Islander	.5	.5
White	85.3	82.9
Other	—	4.1

Chapter IV: Discussion of Results — Round 4

The radically different results that FTC reported in its study served as a catalyst for the Department to undertake additional testing. For Round 4, the Department asked Kleimann Communication Group to parallel aspects of the FTC study, including the questions asked, the difference between the amounts of each offer, and the length of the test situation. However, because the Department thought that the context of the entire form might provide a more accurate measure of participants' understanding of the GFE, the study design used a full-length GFE rather than the extract from the FTC study. For each site, 120 participants were selected for demographic diversity.

The results of this testing showed both consistency and divergence with the FTC results.

Different Cost Loan Comparisons

When the YSP was disclosed, 83 percent of the participants correctly identified the broker loan as cheaper, and 8 percent incorrectly identified the lender as cheaper. These results are an improvement over the FTC results of 72 percent and 17 percent. In this GFE scenario, 72 percent of the participants said they would choose the broker offer and 11 percent said they would choose the lender. Similarly in the FTC study, 70 percent of the participants chose the broker offer and 16 percent chose the lender offer.

Table IV–1. Different Cost Loan Results

	Without YSP (Percent)		With YSP (Percent)	
	FTC	HUD	FTC	HUD
Which loan is cheaper?				
Broker (correct)	90.3	91.6	71.8	83.2
Lender (incorrect)	3.9	.7	16.5	7.9
Same (incorrect)	5.8	5.6	9.7	6.3
Don't know	0	0	1.9	0
No answer	—	2.1	—	2.6

Table IV–1. Different Cost Loan Results (continued)

	Without YSP (Percent)		With YSP (Percent)	
	FTC	**HUD**	**FTC**	**HUD**
Which would you choose?				
Broker	85.2	88.1	69.9	72.1
Lender	2.9	.4	15.5	11.1
Either	3.9	6.3	4.9	11.4
Neither	2.9	0	1.9	0
Don't know	4.9	3.5	7.8	3.5
No answer	—	1.7	—	1.9
Other	—	—	—	—

When the YSP disclosure was removed, 92 percent correctly identified the broker loan as cheaper, and one percent incorrectly identified the lender as cheaper. These results are quite similar to FTC's results of 90 percent and four percent. When asked to choose a loan, 88 percent of participants chose the broker offer, while one percent chose the lender loan. These results compare to 85 percent and three percent respectively in the FTC testing.

Same Cost Loan Comparisons

When given same cost loan offers with the YSP, 81 percent correctly identified both loans as costing the same; 15 percent incorrectly identified the lender as cheaper; and three percent incorrectly identified the broker as cheaper. In contrast, in the FTC study, only 53 percent correctly identified the offers as costing the same; 30 percent incorrectly identified the lender as cheaper; and 11 percent incorrectly identified the broker as cheaper. In this GFE scenario, 50 percent of participants would have chosen either offer; 39 percent chose the lender offer; and only five percent chose the broker's. In contrast in the FTC study, only 25 percent chose either offer; 46 percent chose the lender offer; and 17 percent chose the broker's offer.

When the YSP was excluded from the GFE, 95 percent correctly identified that the loans cost the same, which is consistent with FTC's data (also 95 percent). When asked which loan participants would choose, 90 percent of the participants in HUD's study answered "either loan" correctly, which stands in contrast to FTC's 78 percent In the FTC study, seven percent chose the broker loan, seven percent chose the lender loan, and seven percent chose neither loan. In the HUD study, only two percent chose the broker loan and one percent chose the lender loan.

Qualitative Analysis. Of particular concern was the difference between participants who could identify the cheapest loan offer, but did not choose it. Analysis of the participant responses to the open-ended question of "why did you choose that offer" led to further modifications of the GFE to address this concern and to a fifth round of testing. These responses fell into four themes. First, in many comments, participants stated that they chose a particular offer because they did not want the "higher interest rate" indicated on page two of the GFE. They concluded from the language on the YSP disclosure that the interest rate was higher than the rate cited on page one "Loan Details." Second, many comments reflected that participants felt that the broker YSP disclosure was not straightforward and perhaps manipulative. Third, several participants chose a loan based on the loan origination fee as opposed to the overall adjusted charges. Finally, many of those who had no preference for the cheaper broker loan indicated that $300 was not a big enough difference to be a deciding factor.

Table IV–2 Same Cost Loan Results

	Without YSP (Percent)		With YSP (Percent)	
	FTC	HUD	FTC	HUD
Which loan is cheaper?				
Broker (incorrect)	1.9	.7	10.7	2.9
Lender (incorrect)	2.9	1.4	30.1	14.6
Same (correct)	95.1	95.1	53.4	80.6
Don't know	0	—	5.8	0
No answer	—	2.1	—	1.9
Other	—	.7	—	—

Table IV–2 Same Cost Loan Results (continued)

	Without YSP (Percent)		With YSP (Percent)	
	FTC	HUD	FTC	HUD
Which would you choose?				
Broker	6.8	2.1	16.5	5.4
Lender	6.8	1.4	45.6	39.3
Either	77.7	89.5	25.2	50.4
Neither	6.8	0	6.8	0
Don't know	1.9	4.6	5.8	2.6
No answer	—	2.1	—	2.3
Other	—	.3	—	—

Chapter V: Discussion of Results — Round 5

The qualitative analysis of results to the open-ended questions in Round 4 resulted in several revisions to the GFE:

1. The language in box 2 on page two of the GFE referring to the "higher interest rate" and "lower interest rate" was modified to reduce the possibility of borrowers' misinterpreting that the interest rate had changed from what was reported on the first page.

2. A third option was added to the YSP/discount points section on page two so a lender could indicate that their credits or charges were already included in "Our Service Charge." This addition was designed to mitigate the sense of some participants that credits and charges were not straightforward.

3. Arrows were added on pages one and two to focus the borrower's attention on the subtotals and the total estimated charges rather than individual components. In addition, the point size in the Total Estimated Settlement Charges on the bottom of page one was increased to further draw attention to the bottom-line.

For purposes of testing, three other changes were made to the GFEs. First, the difference in the total cost was changed to $500 to increase the likelihood that the difference would be a deciding factor. Second, another pair of loan options was added in which the lender offer was $500 less than the broker offer. This addition was intended to identify any bias for or against the broker and lender options. Finally, we added a set of four loans to verify whether the comparison across more than two offers increased or decreased participant performance. No version was tested without the YSP and discount-points language.

The results of this testing showed marked improvement in participants' performance on the revised GFE, especially in the 4-way comparison.

Different Cost Loan Comparisons (Broker Less)

In the GFE in which the broker was cheaper, 92 percent of the participants correctly identified the broker as the cheaper loan offer. This result represents an improvement over the 72 percent reported by the FTC study and the 83 percent reported in Round 4 results. Only three percent of the participants incorrectly identified the lender as the cheaper loan offer, but again an improvement over the 17 percent reported by the FTC and eight percent in Round 4. When asked to choose a loan, 87 percent of the participants chose the cheaper broker loan as compared to 70 percent of the participants in the FTC study and 72 percent of the participants in Round 4. The success rates for the 2-option form are almost as good, just a percentage point or two below the 3-option form.

Table V–1. Round 5 Different Cost Loan Comparisons (Broker Less)

Which offer costs less?	2-option YSP		3-option YSP	
	Number	Percent	Number	Percent
B$6,100 (correct)	262	90.7	274	91.6
Both loans are the same (incorrect)	10	3.5	13	4.3
L$6,600 (incorrect)	13	4.5	8	2.7
Other	4	1.4	4	1.4

Which loan would you prefer?	2-option YSP		3-option YSP	
	Number	Percent	Number	Percent
B$6,100	249	86.3	261	87.3
Both offers are equally attractive	8	2.8	20	6.7
L$6,600	13	4.5	11	3.7
I don't know	15	5.2	4	1.3
Other	3	1.0	2	.7
NR	1	.3	1	.3

Different Cost Loan Comparisons (Lender Less)

In the GFE in which the lender was cheaper, 92 percent of the participants correctly identified the lender as the cheaper loan offer. A mere one percent incorrectly identified the broker as cheaper. When asked to choose a loan, 89 percent of the participants chose the lender loan and less than one percent (0.3) chose the broker. Again, the 2-option form results are similar to the 3-option results.

The purpose of testing the case in which the lender was cheaper than the broker was to test for bias by seeing if the GFE forms performed equally well when either the lender or broker was the cheaper loan. A comparison of the results (92 percent vs. 92 percent, 3 percent vs. 1 percent, 87 percent vs. 89 percent, and 3 percent vs. 0.3 percent) provides no support for the charge of anti-broker bias when the loans have different borrower costs.

Table V–2. Round 5 Different Cost Loan Comparisons (Lender Less)

Which offer costs less?	2-option YSP		3-option YSP	
	Number	**Percent**	**Number**	**Percent**
L$6,400 (correct)	256	88.9	275	92.3
Both loans are the same (incorrect)	22	7.6	18	6.0
B$6,900 (incorrect)	6	2.1	3	1.0
Other	2	.7	1	.3
NR	2	.7	1	.3

Which loan would you prefer?	2-option YSP		3-option YSP	
	Number	**Percent**	**Number**	**Percent**
L$6,400	248	86.1	264	88.6
Both offers are equally attractive	18	6.3	24	8.1
B$6,900	6	2.1	1	.3
I don't know	16	5.6	9	3.0

Same Cost Loan Comparisons

In the GFE in which the broker and lender loan offers were of equal cost, 90 percent of the participants were able to correctly identify that fact. This result compares very favorably with the 53 percent reported by FTC and the 81 percent from Round 4. Participants in Round 5 misidentified the lender as cheaper seven percent of the time, a large improvement over 30 percent in the FTC results and 15 percent in Round 4. Participants misidentified the lender as cheaper one percent of the time as compared to 11 percent in the FTC study and three percent in Round 4. Participants said they would choose either loan 70 percent of the time, a dramatic increase over the 25 percent in the FTC study and the 50 percent in Round 4. Twenty-one percent would choose the lender as compared to 46 percent in the FTC study and 40 percent in Round 4. Four percent of participants chose the broker compared to 17 percent in the FTC study and five percent in Round 4. The 2-option form results in Round 5 show the same basic sizeable trend in success rates and reduction in bias.

Table V–3. Round 5 Same Cost Loan Comparisons

Which offer costs less?	2-option YSP		3-option YSP	
	Number	Percent	Number	Percent
Both loans are the same (correct)	250	85.3	272	90.0
L$6,500 (incorrect)	25	8.5	21	7.0
B$6,500 (incorrect)	10	3.4	3	1.0
Other	6	2.0	0	0.0
NR	2	.7	6	2.0

Which loan would you prefer?	2-option YSP		3-option YSP	
	Number	Percent	Number	Percent
Both offers are equally attractive	180	61.4	212	70.2
L$6,500	70	23.9	64	21.2
B$6,500	20	6.8	11	3.6
I don't know	17	5.8	13	4.3
Other	6	2.0	2	.7

Four-Form Comparisons

To further test whether increased context improved or decreased consumer performance with the revised GFE, the Department asked KCG to give the participants a four-loan comparison as well. For this four-way comparison, the Department included a blank worksheet to aid participants in comparing the loans. The worksheet contained spaces for the originator's name, loan amount, interest rate, term, monthly payment, adjusted origination charge, charges for all other settlement services, and total estimated settlement charges. On page one of the GFE, a sentence telling participants to use the table to compare offers was inserted. Additionally, half of the participants were given explicit verbal directions to use the worksheet.

The 300 participants who had received the 3-option GFE were included in this four-way comparison. Half of them were given a set in which a broker loan offer of $6,100 was the cheapest. The other three GFEs reflected a lender loan offer of $6,400 and a lender and a broker loan offers in which both cost $6,500. The other half were given a set in which a lender and a broker loan offers cost the same and were the cheapest at $6,500. In this same set, participants received a broker loan offer of $6,900 and a lender loan offer of $6,600. In addition, only 150 participants received explicit verbal instructions to use the worksheet in their comparison, while half received no instructions.

Participant performance on the four way comparison is impressive. In the comparison in which the broker loan offer of $6,100 is the cheapest, 92 percent of participants who were not verbally reminded to use the comparison worksheet correctly reported the $6,100 broker loan as the cheapest. Three percent incorrectly identified the $6,400 lender loan as the cheaper loan. These results are the same as for the paired comparison discussed earlier where the broker was $500 less. Interestingly, very few of the participants who were not verbally reminded to use the comparison worksheet used it.

When instructed to use the comparison sheet, many participants did, and 97 percent correctly identified the $6,100 broker loan as the cheapest, and none wrongly picked the $6,400 lender loan. The overall success rate for correctly identifying the correct loan as the cheapest for both those getting and those not getting the verbal instructions to use the comparison worksheet was 95 percent, with only one percent misidentifying the lender as cheaper.[11]

Table V–4. Four-form Comparison, Participants Did Not Receive Instructions to Use the Mortgage Shopping Chart

Which offer costs less?	Number	Percent
B$6,100 (correct)	68	91.9
L$6,500 (incorrect)	1	1.4
L$6,400 (incorrect)	2	2.7
B$6,500 (incorrect)	0	0.0
NR	3	4.1

Table V–5: Four-form Comparison, Participants Received Instructions to Use the Mortgage Shopping Chart

Which offer costs less?	Number	Percent
B$6,100 (correct)	75	97.4
L$6,500 (incorrect)	0	0.0
L$6,400 (incorrect)	0	0.0
B$6,500 (incorrect	0	0.0
NR	2	2.6

[11] A success rate of 95 percent may be as high as one could expect in this kind of testing. This is the same success rate of the FTC, when they gave borrowers two equally costly loans, one from a broker and one from a lender, without the YSP disclosed. In other words, where borrowers received two identical forms with identical loan data on them, only 95 percent figured out the offers were the same.

In the case where both loans cost the same and no verbal instructions were given to use the comparison sheet, 41 percent picked the broker loan as cheaper and 49 percent picked the lender loan. With verbal instructions to use the worksheet, 57 percent picked the broker at $6,500 and 35 percent picked the lender at $6,500. The combined average was 49 percent for the lender and 41 percent for the broker.

Table V–6. Four-form Comparison, Participants Did Not Receive Instructions to Use the Mortgage Shopping Chart

Which offer costs less?	Number	Percent
B$6,500 (correct)	31	40.8
L$6,500 (correct)	37	48.7
B$6,900 (incorrect)	1	1.3
L$6,600 (incorrect)	4	5.3
Other	1	1.3
NR	2	2.6

Table V–7. Four-form Comparison, Participants Received Instructions to Use the Mortgage Shopping Chart

Which offer costs less?	Number	Percent
B$6,500 (correct)	44	57.2
L$6,500 (correct)	27	35.0
B$6,900 (incorrect)	2	2.6
L$6,600 (incorrect)	2	2.6
Other	0	0
NR	2	2.6

Chapter VI: Recommendations and Conclusions

Recommendations

Retain the 3-option YSP. The 3-option GFE consistently received slightly better results than the 2-option GFE. In the 3-option GFE in which the broker was cheaper, 92 percent of the participants correctly identified the broker as the cheaper loan offer. In Round 4, 83 percent correctly identified the broker as the cheaper loan offer. In the 3-option GFE where the lender was cheaper, 92 percent of the participants correctly identified the lender as the cheaper loan offer. Ninety percent of the participants were able to correctly identify that both offers cost the same in the 3-option GFE where the broker and lender loan offers were equal. Eighty one percent correctly answered that both offers were the same in Round 4. Both the 3-option and 2-option GFE performed well; however, the higher results and better comprehension of the 3-option GFE suggest that the 3-option GFE should be retained.

Retain the revised language. The GFE language was revised in Round 5 to reduce the possibility of borrowers' misinterpreting that the interest rate had changed from what was reported on the first page. Also, a third option was added to the YSP/discount points section on page two so a lender could indicate that their credits or charges were already included in "Our Service Charge." This addition was designed to mitigate the sense of some participants that credits and charges were not straightforward. By retaining the revised language, the GFE will continue to aid consumers in understanding the interest rate and YSP/discount points and allow them to determine which offer is less expensive.

Retain the summary-line arrows. The arrows were added to focus the participants' attention on the subtotals and the total estimated charges rather than the individual components of the GFE. The summary-line arrows were successful in focusing participant's attention on the subtotals and total estimated charges, allowing them to clearly see and understand the bottom-line costs.

Retain the Mortgage Shopping Chart as a permanent part of the GFE and MPO (as a new page four). The Mortgage Shopping Chart allowed participants to conduct a four-loan comparison The Mortgage Shopping Chart was successful in helping participants compare four-loans on one worksheet. The overall reaction of participants was that the chart was very helpful in aiding their comparisons of several loans and allowing them to see which loan was cheapest overall.

Sponsor a Consumer Campaign. Consumers remain unclear about the intent and purpose of the Yield Spread Premium. Providing consumers standalone directions for the GFE and MPO and making them available via the Internet and mail will help to educate consumers on the intent and purpose of the YSP and allow them to better understand and use the GFE and MPO.

Conclusions

With the extensive consumer testing of the GFE and the resulting revisions of the GFE, a variety of conclusion can be reached based on the evidence from the testing.

1. Participants are highly successful in identifying the cheapest loan with success rates in the 90+ percent range whether the broker loan is cheaper, the lender loan is cheaper, or the loans cost the same.
2. Broker bias does not appear. The success rate for participants identifying the cheapest loan offer is the same whether the broker loan or lender loan offer is cheaper and the drop-off rate from identifying the cheaper loan to deciding which one to choose is about the same for brokers as it is for lenders.
3. This success rate is maintained when the number of loan offers increases, thus showing that, to some extent, additional context eases the task of differentiating among the offers for consumers. Rather than being overwhelming, the additional loan offers help them to focus on the key information.
4. The bias that does show up in the paired comparisons in which both loans cost the same is actually against the lender in the four-way comparisons, undercutting the suggestion that broker bias exists, even in the very unlikely case of a tie.
5. The new GFE will improve the ability of the consumer to shop. The presentation is simpler, with a combined figure for each functional category, so that borrowers are less likely to be overwhelmed by detail. The additional graphic elements help to guide consumers to the bottom line rather than elements of the offer. Tolerances make the estimates on the GFEs more reliable which will make it more likely that decisions based on this information will make the borrower better off. The trade-off table and language encouraging consumers to shop help consumers understand more clearly their options.

These factors make it likely that consumers will obtain loans at lower cost. When borrowers do a better job shopping, are able to compare across offers knowledgeably and with confidence, and can select loans with more favorable terms, borrowers assume more control over their lives and their options. The revised GFE helps to demystify the often confusing and overwhelming process of financing the purchase of a house. It empowers the consumer.