NOTICE to Readers of HUD Mortgage Disclosure Forms Testing Reports

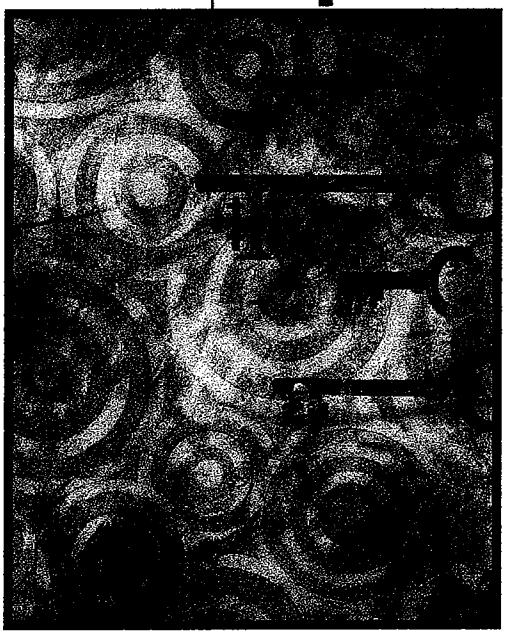
On July 29, 2002, the Department of Housing and Urban Development (HUD) proposed a new rule under the Real Estate Settlement Procedures Act (RESPA) to simplify and improve the process for consumers to obtain home mortgages. Between 2003 and 2004, HUD tested several versions of mortgage disclosure forms, 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 The RESPA reform final rule that the testing was initially designed to support was withdrawn in 2004.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.

final|report



Testing New HUD Forms with American Homebuyers

PREPARED FOR
THE US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ASPEN SYSTEMS

MARCH 7, 2003

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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 Guaranteed Mortgage Package Agreement (GMPA). Both forms are to be used by mortgage brokers and lenders to provide borrowers with estimates of their closing costs.

HUD has several goals in revising these forms:

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

Ultimately, HUD wants to help borrowers become better consumers.

HUD has contracted with Aspen Systems, with a subcontract to the Kleimann Communication Group, to help develop the forms, including the GFE, the GMPA 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 five 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: Final redesign of the forms

Each of the two rounds of usability testing involved 45 subjects in three cities. 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:

- 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 Changes Did We Make to the Forms After Each Round of Testing?

The appendices include the testing materials and the final forms.

2 How Did We Develop and Test the Forms?

We developed 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 forms in two rounds of testing involving 90 subjects in 6 cities. 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

We began by meeting with key subject matter experts at HUD to discuss the two forms— the Good Faith Estimate of Settlement Costs (GFE) and the Guaranteed Mortgage Package Agreement (GMPA). At this meeting, we discussed HUD's goals and key messages for the forms and the problems and issues that HUD anticipated that borrowers might have with the forms.

We developed an initial draft of each form that was reviewed by HUD officials. We revised the form based on comments from HUD and then used our usability experts and graphic designers to develop two forms that would meet our key criteria for good forms design:

- People can follow the right pathways (Navigation)
- People can understand the information presented (Comprehension)
- People can use it appropriately (Task Completion/Decision Support)

Through this process of review and redesign, a draft of each form was developed for Round 1. A difference of opinion surfaced over whether homebuyers would prefer a form that has a summary of the settlement costs on page 1 or whether they would prefer to see the total settlement costs after the details are presented. We developed two forms of the GFE to see which method subjects would prefer.

These two forms were tested in Round 1. Subjects preferred the form with the summary on the first page of the form, so only this form was tested in the second round. We made

changes to the forms for the second round of testing based on the subjects' responses to the forms during the first round. For the second round of testing, we also developed a crosswalk from the GFE to the HUD-1 settlement statement. The crosswalk has only been tested in the second round and is at an earlier stage of development than the GFE and the MPO.

Testing Approach

We developed a comprehensive testing protocol that addressed the key issues and questions about the forms. See Appendices B and C for copies of the script 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 respond well to, areas they do not understand, and areas they question. 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 crosswalk 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 after we developed them in cooperation with HUD at six geographically dispersed locations that represent diverse settings and populations (Table 1). We tested in two rounds. For the first round, all of the testing took place in the same week. For the second round, we tested in two locations one week and then a third location the following week.

Table 1. Dates and Sites for the Testing

Dates	Round	Sites	Number of Subjects Tested
December 9-13, 2002	1	Baltimore, MD	15
		Birmingham AL	15
		Chicago, IL	15
January 20-24, 2003	2	Austin, TX	15
		San Diego, CA	15
January 30-February 4, 2003	2	Portland, OR	15
		Total	90

Testing Conditions

We interviewed all subjects for one and a half hours. For each round of testing, not all subjects received exactly the same materials. For the first round of testing, we had four conditions for the subjects. For the second round of testing, we had three conditions.

Round 1

For the first round of testing, we had developed two versions of the GFE. One of the major issues we wanted to collect data about was whether subjects found it easier to use the GFE that had a summary page or one that did not. Half of the subjects received one version of the GFE with the summary page and half of the subjects received a version without the summary page.

In addition, 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. Half of the subjects received the GFE first and half received the GMPA first.

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

Condition 1: 12 subjects
Condition 2: 11 subjects
Condition 3: 11 subjects
Condition 4: 11 subjects

Table 2. Conditions of Testing for Round 1

Presentation of Forms	Version of the GFE	
	With Summary Page	Without Summary Page
GFE first, GMPA second	Condition 1	Condition 2
GMPA first, GFE second	Condition 3	Condition 4

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 and 4. For the first round of testing, the schedule was the same for conditions 1 and 2 and for conditions 3 and 4. The script for the testing and the forms used are shown in Appendix C.

Table 3. Schedule of Testing for Conditions 1 and 2 in Round 1

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 make a comparison.
Break	10	
Task 3	15	The participant receives and reacts to a sample GMPA that has been completed as an example.
Task 4	15	We ask the participant questions about the sample GMPA and ask the participant to compare the GFE and the GMPA.
Total time	1 hour, 30 minutes	

Table 4. Schedule of Testing for Conditions 3 and 4 in Round 1

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 GMPA that has been completed as an example.
Task 2	15	We ask the participant questions about the sample GMPA.
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 make a comparison. We ask the participant to compare the GFEs and the GMPA.
Total time	1 hour, 30 minutes	

Round 2

For the second round of testing, we were concerned with different issues. We developed a crosswalk from the GFE to the HUD-1 and wanted to test it with subjects. We had only one version of the GFE and the GMPA (now called the MPO) to test; however, we still wanted to vary the order of presentation of the GFE and the MPO. We decided to have two-thirds of the subjects work with copies of the GFE and MPO. Of these 30 subjects, half received the GFE first and then the MPO and half had the reverse order. The other third of the subjects received copies of the GFE, but worked primarily with the crosswalk to the HUD-1. This resulted in the 3 conditions shown in Table 5.

Table 5. Conditions of Testing for Round 2

Presentation of Forms	Condition
GFE first, MPO second	Condition 1
MPO first, GFE second	Condition 2
GFE first, followed by the crosswalk to the HUD-1	Condition 3

The task descriptions and time breaks are shown in Tables 6, 7, and 8 for participants in each of the conditions.

Table 6. Schedule of Testing for Condition1 in Round 2

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 make a comparison.
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 GFE and the MPO.
Total time	1 hour, 30 minutes	

Table 7. Schedule of Testing for Condition 2 in Round 2

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 make a comparison. We ask the participant to compare the GFEs and the MPO.
Total time	1 hour, 30 minutes	

Table 8. Schedule of Testing for Condition 3 in Round 2

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.
Task 2	15	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	20	The participant attempts to fill in the crosswalk from the GFE. After 10 minutes we give the participant a correctly completed cross walk and ask them to fill in the information from the HUD-1 while thinking aloud.
Task 4	15	We ask the participant questions about how the GFE compares with the HUD-1.
Total time	1 hour, 30 minutes	

Recruiting the Subjects

We recruited 90 subjects in six 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 9.

Table 9. 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 10 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 elderly subjects and those with lower educational levels, but we did have a sizable number in each group. The sample had very good representation of different racial and ethnic groups. Many of the subjects spoke and wrote English as a second language. In addition to the Hispanic group, we had participants from Korea, Pakistan, Turkey, and Germany, among others.

Table 10. Demographic Characteristics of the Sample

Demographic Characteristic	Number in Sample		Percent of Total Sample in Both Rounds
	Round 1	Round 2	
Age			
21 years or less	0	1	1%
22 to 34 years	15	9	27%
35 to 44 years	8	14	24%
45 to 54 years	9	10	21%
55 to 64 years	6	4	11%
65 years and over	7	7	16%
Race and Ethnicity			
Hispanic	8	10	20%
Black or African American	12	7	21%
Asian	0	9	10%
Education – highest grade completed			
Less than high school	3	6	10%
High school graduate	4	9	14%
Some college	18	11	32%
College graduate	15	14	32%
Graduate school	5	5	11%
Household Income Per Year			
Less than $20,000	3	5	9%
$20,000 to $39,999	11	10	23%
$40,000 to $59,999	14	17	34%
$60,000 to $79,999	6	6	13%
$80,000 to $99,999	4	4	9%
$100,000 and over	5	2	8%
No response	2	1	3%
Marital Status and Gender			
Single male	8	5	14%
Single female	14	12	29%
Married male	11	13	27%
Married female	12	15	30%
Total Respondents	45	45	100% (90)

We planned to have two-thirds of the sample be experienced homebuyers who had bought or refinanced a home in the last two years. We achieved this almost exactly as shown in Table 11. Of those who planned to buy in the next six months, most had gone to open houses and had contacted a real estate agent.

Table 11. Homebuying Experience of the Sample

Homebuying Experience	Number in Sample		Percent of Total Sample in Both Rounds
	Round 1	Round 2	
Bought or Refinanced in Past 2 Years	29	30	66%
Plan to Buy in Next 6 Months	16	15	34%
Of those who plan to buy:			
Have gone to open houses	12	11	74%
Have contacted a real estate agent	10	10	65%
Have pre-qualified for a mortgage loan	4	4	26%

3 How Successful Are the Forms in Meeting HUD Goals?

After each round of testing, we evaluated the success of the new 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

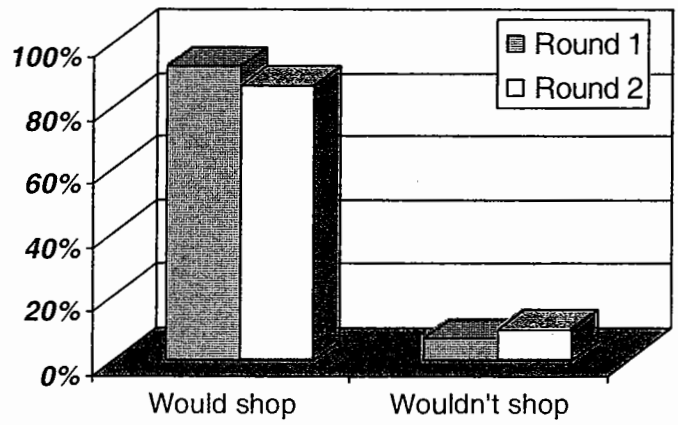
Goal 1: Facilitate Shopping for Mortgages

An important HUD goal for designing the new forms was 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: We included a paragraph on both the GFE and the GMPA/MPO directing subjects to shop around for the best loan. In the testing we asked subjects whether they would get more than one GFE or GMPA/MPO before making a decision. We did not change the sentence about shopping between Round 1 and Round 2.

Figure 1. Percent of Subjects Saying They Would Get More than One Loan Offer



Results: In Round 1, 93% of subjects said they would get different GFEs or GMPAs from different lenders (Figure 1). Only 7% said they would not. In Round 2, slightly fewer subjects said they would get different GFEs or MPOs from different lenders and more said they probably would not. It is not clear why the revised forms in Round 2 were less successful in motivating subjects to shop for other GFEs or MPOs, but the differences were not large. In the second round, several subjects commented on being concerned that their credit ratings would be adversely affected by getting forms from different lenders, but this may not account for the difference.

> *The trade-offs table gives me an idea, and it's based on my credit, right? So I wouldn't want too many inquiries on my credit report." (Subject 4131)*

> *It pays to shop around, especially these days. (Subject 6142)*

Choosing the Best Loan Offer

What we did: After subjects had looked at two GFEs, one from a bank and one from a mortgage broker, we asked them to pick the best deal. After they also looked at the GMPA or MPO, we asked them again to pick the best deal.

Results: During Round 1 subjects did very well with picking the best deal: 73% chose the correct GFE (Figure 2) and 86% chose the correct GFE out of all three possibilities (Figure 3). For the second round, the results were even better: 90% picked the correct GFE and 93% picked the correct loan out of the three possibilities.

This result indicates that the forms are helpful in facilitating consumer choice of the best loan. The remaining confusion that exists after the second round appears to be due to a further breakdown of the lender/broker charges on page 3 of the GFE. Some subjects thought that these were additional charges and this caused them to pick the wrong loan.

Figure 2. Percent of Subjects Choosing the Best Loan Offer between the GFEs

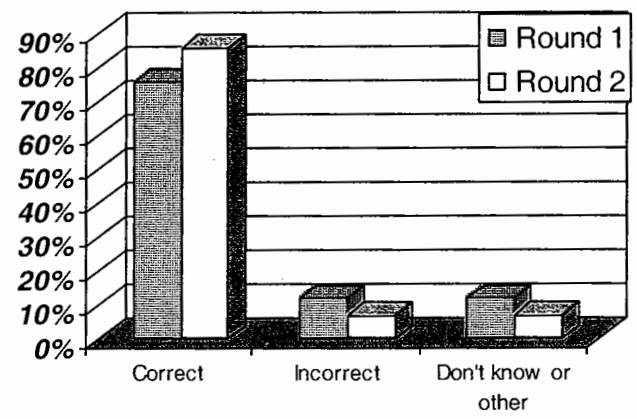
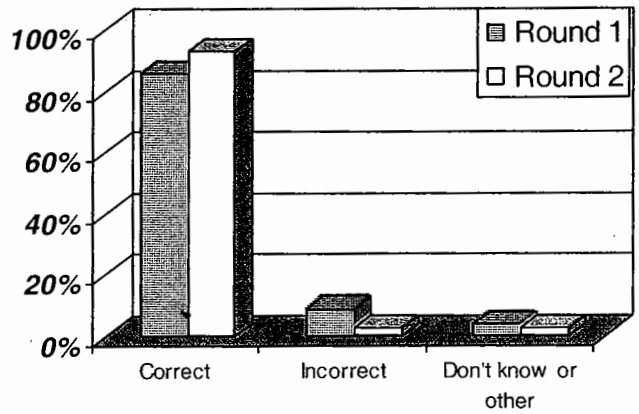


Figure 3. Percent of Subjects Choosing the Best Loan Offer between All Offers



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 GMPA/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 items in one category or the other. Subjects did not always understand this question and sometimes gave us specific differences between the items listed within the category, such as an appraisal, rather than the differences between the categories themselves. To be included as having a correct answer for this question, the subject had to generate the correct answer themselves.

Round 1

What we did: In Round 1 we included these items on the second page of the GFE.

Results: The majority of the subjects (62%) were able to generate the answer that we were looking for, but this percentage was not as high as for some of the other questions we asked (Figure 4).

Round 2

What we did: Between Round 1 and Round 2, the second page of the GFE was simplified and the tolerance information was moved elsewhere. However, we did not change the way the information about shopping was presented in the breakdown of charges on page two.

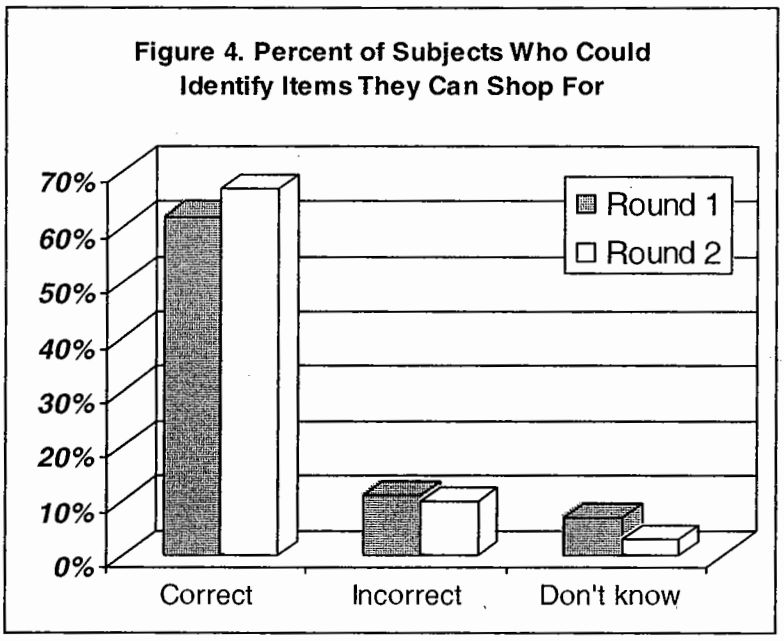


Figure 4. Percent of Subjects Who Could Identify Items They Can Shop For

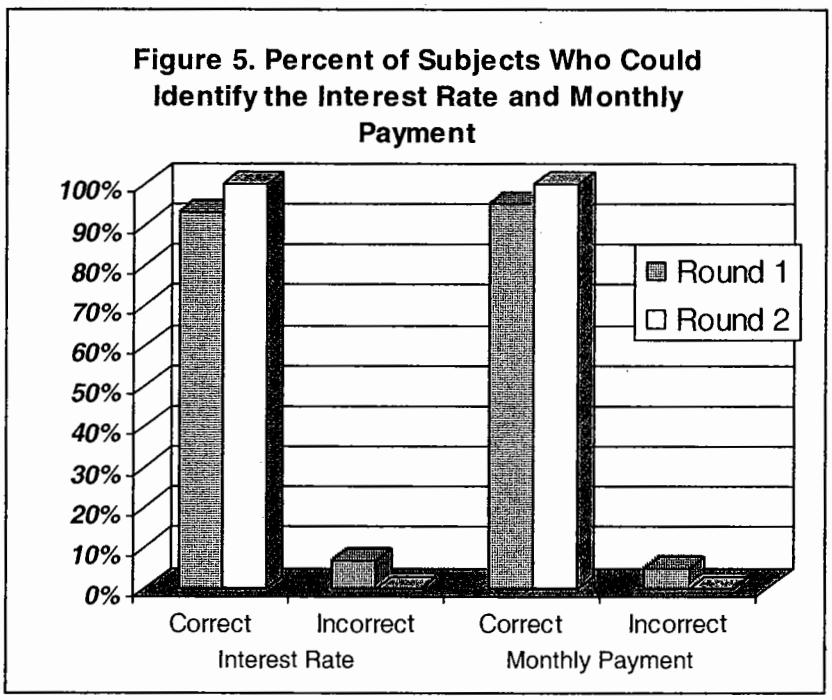
Results: In Round 2, the percentage of subjects who could understand that they could shop for some items or use the lender or broker's providers increased slightly, though it remained only at two-thirds of the subjects. The percentage of those who did not understand this concept also decreased slightly. Most of those who gave incorrect answers were focused on the specific charges within the categories rather than the categories themselves.

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 GMPA/MPO in both rounds that showed the basic costs, including: the loan amount, the interest rate, the monthly payment and interest, and the settlement charges. For the first round, the GFE either had the total of the settlement charges on the first page or on the second page. For the second round, the total for the GFE was shown on the first page. For the GMPA/MPO, the total of the settlement charges was always shown on the first page. We asked subjects questions about the terms to be sure that they could find them easily.

Round 1

What we did: In Round 1, the summary of loan terms included the interest rate and monthly payment on the first page. In terms of the settlement charges, we tested two versions of the GFE—one with all of these costs in a summary table on page 1, and one with only the loan terms table but not the estimated settlement charges.



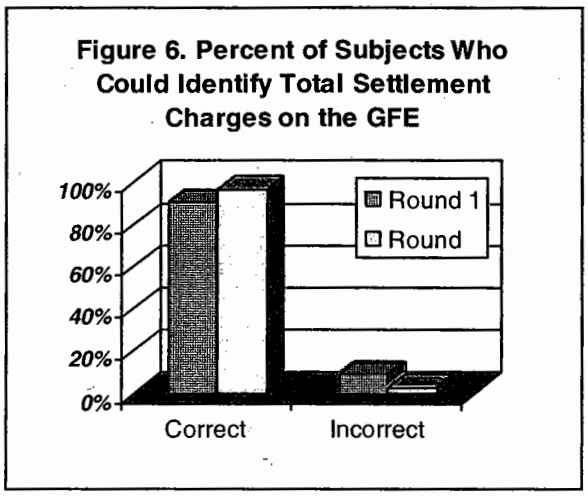
Results: In terms of the basic costs, the results were very good. In this round, 93% of subjects were able to correctly identify the interest rate of the loan, and 95% could correctly identify the monthly payments (Figure 5). In terms of the total estimated settlement charges, 91% overall could identify the total estimated settlement charges on the GFE while 90% could identify them on the GMPA (Figures 6 and 7).

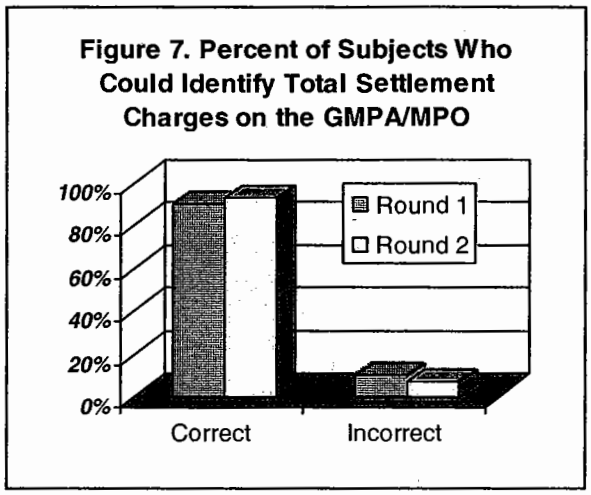
Round 2

What we did: Before Round 2 we revised both the GFE and MPO to include all the basic costs on the front page.

Results: In this round of testing, a greater percentage of subjects were able to identify all of these basic costs: 100% of subjects could correctly identify the interest rate of the loan and 100% could identify the correct monthly payment (Figure 5).

In terms of the total settlement charges, 97% could identify the total estimated settlement charges on the GFE, while 93% could identify them on the MPO (Figures 6 and 7).





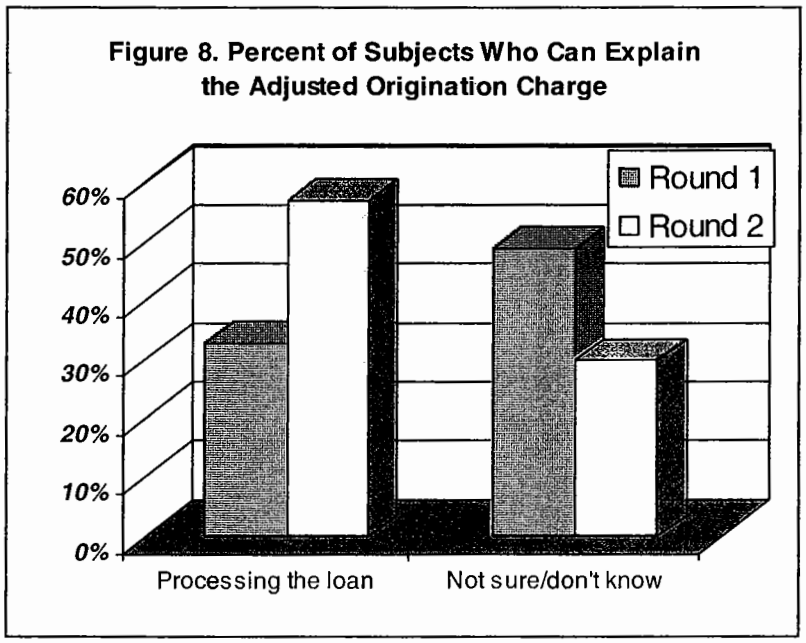
Goal 4: Show Yield Spread Premium and Discounts to Borrowers

HUD wants homebuyers to understand the charges or discounts that lenders or brokers may provide depending upon the interest rate. We had a section on the second page of the GFE that showed this calculation as the "Adjusted Origination Charge." We noted subjects' reaction to this section both in the "thinkaloud" sessions and when asked a direct question about the meaning of the term.

In addition, we included a table that showed the trade-off between a loan with a high interest rate and lower settlement costs vs. a loan with a low interest rate and higher settlement costs.

The Adjusted Origination Charge

What we did: On page two of the GFE, we included a brief explanation of the charge or credit for the interest rate the homeowner had chosen, and showed the calculations that were used to arrive at the adjusted origination charge. We did not change the language of this section between Round 1 and Round 2.



Results: In Round 2, the percentage of subjects who understood what

the charge meant increased from about one third of participants to almost two thirds, while the percent who did not understand fell from nearly half to only one third (Figure 8). Subjects were better able to understand how their interest rate affects their origination charge and how they might want to use the change to their advantage. In our testing, we found that participants were generally better able to follow the calculations on the form than the textual explanations. By making the calculations and charges as detailed and explicit as possible, we helped subjects to use what they did understand—the math—to arrive at an understanding of the reasons the calculations were happening.

> *It's $2,000, but I don't know what it's for.(Subject 5142)*

> *It's $4,500 minus $2,500, since I have such a high interest rate, so it's $2,000. It would benefit me in the beginning, but not in the end. (Subject 4131)*

> *It's the service charge for the processing of the loan. (Subject 6022)*

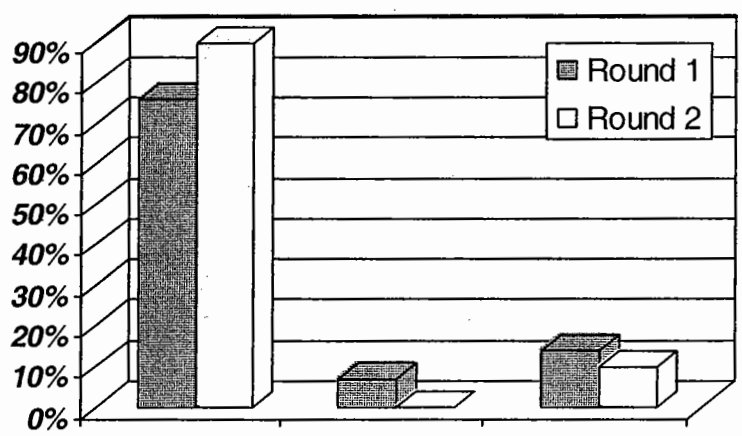
The Trade-off Table

A table was included on both the GFE and the GMPS/MPO that showed the relationship between the interest rate for a loan and the settlement costs. The critical relationship that we wanted homebuyers to understand was that if they want a lower interest rate they can pay more at settlement to get one. On the other hand, if they are willing to pay a higher interest rate they can reduce their settlement costs.

What we did: In order to see if homebuyers understood the table, we asked them if they paid more in cash at settlement would their monthly payment go up or down.

Results: The results in Figure 9 show that subjects were able to correctly explain the relationship. In Round 2, after we had improved the trade-off table, 90% of the subjects gave the correct response and none gave an incorrect response. Some subjects said they did not know the answer.

Figure 9. Percent of Subjects Who Gave the Correct Answer on the Trade-off Relationship



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 1 of the testing, but improved greatly in Round 2 after the forms were redesigned.

Round 1

What we did: On both the GFE and the GMPA, the tolerances were listed below each of the settlement charges on page 2 of the forms.

Results: Because of the small font and other text in the cells, many participants missed or misunderstood this information. The results shown in Tables 12 and 13 indicate that most participants could not identify the tolerances for most of the charges on each form. For most of the charges that could change, less than half of subjects (and sometimes less than one quarter) could correctly identify how charges might change before settlement.

Table 12. Ability of Respondents to Identify Tolerances on the GFE during the First Round of Testing

Question	Number Correctly Identifying Charge	Percent of Sample	Number Answering Question
Which charges should remain the same at settlement as they are on this [GFE]?			
Origination services charge	20	47%	43
Third party services lender selects	32	74%	43
Government taxes and fees	24	56%	43
Which charges might vary a lot at settlement (more than 10%) from the way they are on this [GFE]?			
Your charge or credit for the specific interest rate chosen	8	19%	43
Per diem interest charges	20	47%	43
Hazard insurance	12	28%	43
Optional owner's title insurance	10	23%	43
Which charges cannot change more than 10% from the way they are on this [GFE]?			
Reserves or escrow	20	54%	43

Table 13. Ability of Respondents to Identify Tolerances on GMPA during the First Round of Testing

Question	Number Identifying Charge	Percent of Sample	Number Answering Question
Which charges should remain the same at settlement as they are on this [GMPA]?			
Guaranteed mortgage package price	29	71%	41
Which charges might vary a lot at settlement (more than 10%) from the way they are on this [GMPA]?			
Per diem interest charges	17	43%	40
Hazard insurance	13	33%	40
Optional owner's title insurance	13	33%	40
Which charges cannot change more than 10% from the way they are on this [GMPA]?			
Reserves or escrow	21	53%	40

Round 2

What we did: We revised the way tolerances were shown on both the GFE and the MPO for Round 2. We eliminated the tolerance information in the itemization table on page two. We created a separate section on each form that listed what charges could change and to what extent.

Results for the GFE: After this round of testing, many more subjects were able to identify how charges could change (Table 14). Only one quarter of the subjects were still unable to answer correctly. One of the reasons for errors was that this information was listed on page 3 of the GFE rather than page 2 where the charges are listed. Those who answered incorrectly could frequently not find the correct place to look.

Table 14. Ability of Subjects to Identify Tolerances on the GFE during the Second Round of Testing

Tolerances in Round 2	Percent of Sample
All tolerances identified correctly	70%
Almost all tolerances identified correctly	3%
All tolerances identified incorrectly—cannot find the correct place to look	23%
All tolerances identified incorrectly—other difficulties	3%
N	100% (30)

Results for the MPO: In Round 2, the percentage of subjects who could identify how different charges might change jumped to more than three quarters in all cases. Almost all participants were able to identify how all the charges might change before settlement.

Table 15. Ability of Subjects to Identify Tolerances on the MPO during the Second Round of Testing

Question	Number Identifying Charge	Percent of Sample	Number Answering Question
Which charges should remain the same at settlement as they are on this [MPO]?			
Guaranteed mortgage package price	22	76%	29
Which charges might vary a lot at settlement (more than 10%) from the way they are on this [MPO]?			
Per diem interest charges	25	86%	29
Hazard insurance	24	83%	29
Optional owner's title insurance	24	83%	29
Which charges cannot change more than 10% from the way they are on this [MPO]?			
Reserves or escrow	25	86%	29

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. The GFE and GMPA/MPO were both overwhelmingly successful in conveying information about prepayment penalties and balloon payments Figures 10 and 11). In both Round 1 and Round 2 of testing, almost all subjects were able to correctly answer questions about this information. In all but the second round of testing on the MPO, less than five percent of participants answered these questions incorrectly.

Figure 10. Percent of Subjects Who Can Identify Whether Their Loan has a Prepayment Penalty

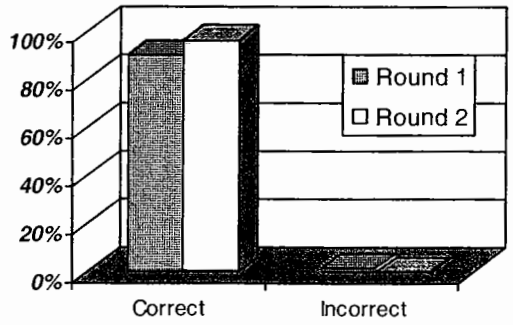
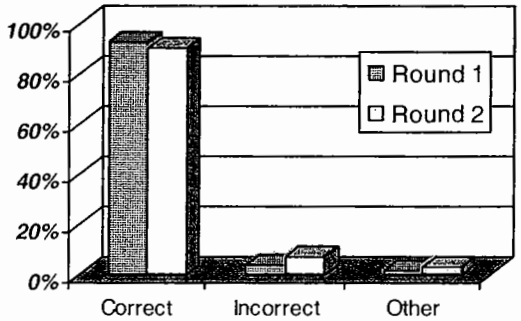


Figure 11. Percent of Subjects Who Can Identify Whether Their Loan has a Balloon Payment



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. We developed a crosswalk from the GFE to the HUD-1 settlement statement and from the MPO to the HUD-1 settlement statement. The crosswalk from the GFE to the HUD-1 was only tested during the second round and should be tested further. We tested three aspects of the crosswalk:

- Can homebuyers correctly fill in the information from the GFE 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?

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. Four items were completed correctly by every subject. Many of the other items were completely correctly by more than three-quarters of the subjects.

The 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. Item 4 and item 5 were like this and a very low percentage of the subjects answered them correctly. We have addressed this issue in the final version of the crosswalk that is included in this report.

Table 16. Percent of Subjects Filling in the Information from the GFE on the Crosswalk Correctly

Charge from the GFE	Percent Correct
Items that Cannot Increase at Settlement	
1. Our service charge	87%
2. Your charge or credit for the specific interest rate chosen	73%
3. Third party services we select	80%
4. Title services and lender's title insurance	27%
6. Taxes and fees	100%

Charge from the GFE	Percent Correct
Items that Cannot Increase More Than 10% at Settlement	
4. Title services and lender's title insurance	80%
5. Required third party services you can shop for	33%
7. Reserves or escrow	100%
Items That Can Change at Settlement	
4. Title services and lender's title insurance	13%
5. Required third party services you can shop for	67%
8. Daily interest charges	73%
9. Homeowner's insurance	100%
10. Optional owner's title insurance	100%
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 GFE, some items were very easy for subjects and others were difficult. Only one item was completed correctly by all subjects, but many of the items were completed correctly by three-quarters or more of the subjects.

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.

Table 17. Percent of Subjects Filling in the Information from the HUD-1 on the Crosswalk Correctly

Charge from the HUD-1	Percent Correct
Items that Cannot Increase at Settlement	
801 Loan origination fee	87%
Other lender fees from 800-899	27%
Lender payment on behalf of borrower	80%
802 Loan discount (should be blank in the example)	87%

Charge from the HUD-1	Percent Correct
Third party services selected by lender	7%
1100-1199 Title charges	27%
1200-1299 Government charges	100%
Items that Cannot Increase More Than 10% at Settlement	
1100-1199Title charges	47%
Required third party services you can shop for (803-899, 902, 1300-1399)	36%
1000-1099 Reserves or escrow	79%
Items That Can Change at Settlement	
1100-1199Title charges	64%
Required third party services you can shop for (803-899, 902, 1300-1399)	14%
901 Interest from	93%
903 Hazard insurance	93%
1110 Owner's coverage	86%
N	15

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

One possibility to help homebuyers is that the lender, broker, or title agent could complete the crosswalk for the homebuyer. Such a method has disadvantages in that such persons have vested interests in covering up any discrepancies. 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. Almost all subjects found them immediately.

Table 18. Percent of Subjects Who Could Correctly Identify Items out of Tolerance

Item	Percent Correct
Items out of tolerance	
Found extra charge for pest inspection	100%
Found extra charge for taxes	87%
N	15

4 How Did the Subjects React to the Forms?

During the two rounds of testing, we asked the subjects a number of questions about how they felt about the forms—how comfortable or uncomfortable they felt with the forms, what they liked and disliked, and how they perceived the information provided and the level of writing. We asked the same questions in both rounds of testing so that the results could be compared. This section describes these results and provides an overview of the subjects' perceptions of the forms regardless of how effectively they could use the forms.

Most Useful Information

For both the GFE and the GMPA/MPO we asked subjects what they considered to be the most useful information on the form. This was an open-ended question and some subjects did not respond. In the figures, we show the percentage of subjects out of the total per round who gave a particular response.

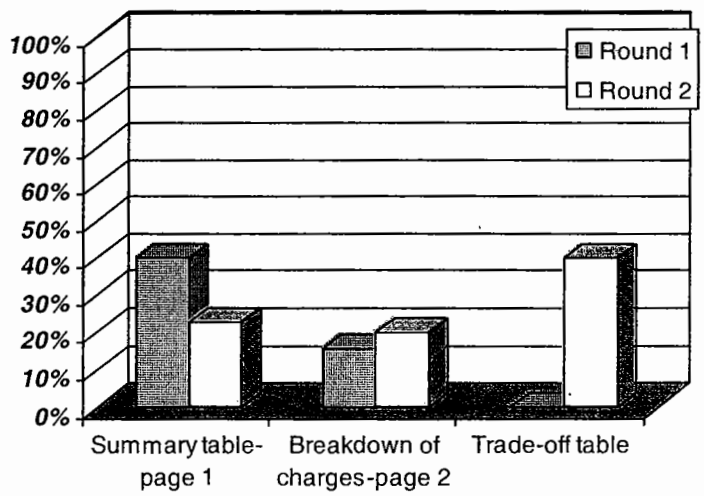
GFE

In both rounds of testing, subjects found the most useful types of information to be those that gave them facts about the money they would have to pay or options about the amount that they would have to pay. They were able to use the form to identify key information that would help them in making decisions—the costs they can expect and ways to manipulate those costs to their own benefit.

What subjects perceived to be the most useful information on the form changed between Rounds 1 and 2.

In Round 1, subjects thought the most useful information on the GFE was the summary table giving the loan terms on page 1 and the breakdown of charges on page 2 (Figure 12). During this round, some subjects were confused by the trade-off table and few mentioned it in their comments.

Figure 12. Subjects' Perception of the Most Useful Information on the GFE



In Round 2, the largest percentage of subjects commented that they found the trade-off table to be the most useful. Some also mentioned the summary table. The breakdown of the charges on page 2 moved into third place.

The information in the trade-off table appears to be very important to many subjects once the table was revised so that they could better understand it. The summary table and the breakdown of charges on page 2 continued to be important to the subjects who worked with the GFE in Round 2.

One subject commented on the trade-off table:

> *[The trade-offs table] gives me a good example of the different interest rates—what the monthly payments are and the settlement costs are. It helps you make a decision based on how much cash you have up front to lay down and what payments you can afford. (Subject 4082)*

Another subject mentioned the summary table and breakdown of charges on page 2:

> *Loan terms, payment information. I like the summary table and the page 2 tables because they show you where your money is going and why.(Subject 5052)*

GMPA/MPO

In testing the GMPA/MPO, subjects again responded most to types of information that gave them facts about the money they would have to pay or options about the amount that they would have to pay; however, their assessment of what was most useful in the form did not change as much as it did in testing the GFE.

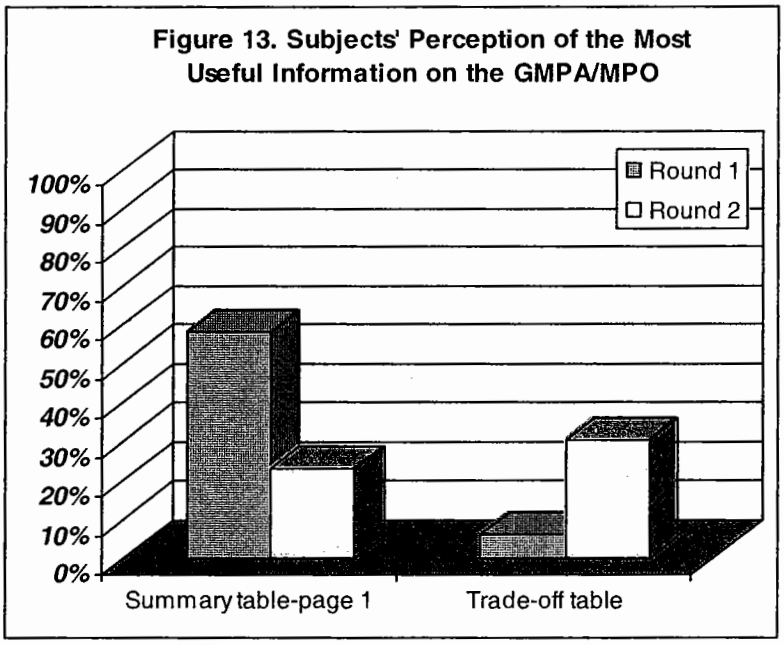


Figure 13. Subjects' Perception of the Most Useful Information on the GMPA/MPO

Subjects did not change much in their assessment of what the most useful information was between Rounds 1 and 2. In both rounds, subjects chose the summary table on page 1 and the trade-off table as the information they thought was the most useful. The only change in the two rounds of testing is that more subjects thought the summary table was the most important in Round 1, while more subjects thought the trade-off table was most useful in Round 2 (Figure 13).

The trade-off table was revised after the testing in Round 2. In Round 2, far more subjects responded positively to the table and to the idea that they were being presented with options. Many subjects seemed very happy at the measure of control this table gave them over how their interest rates, settlement charges, and payments would be

organized. It may be that understanding their options more clearly in Round 2, after the revision, led more participants to choose the trade-off table as the most useful information on the form.

Some subjects commented on the trade-off table specifically:

> *The most useful information is the comparison between different interest rates and costs. (Subject 6052)*

> *Summary of loan terms; I also like the settlement charges listed on page 2—that they make that clear—also, the trade-offs table because it gives me options. (Subject 4142)*

What Subjects Liked Most

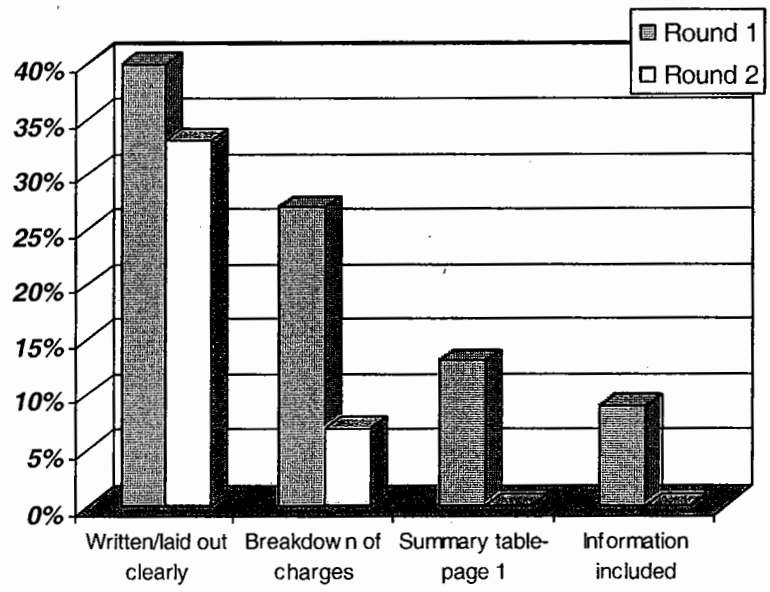
We asked subjects what they liked most about the forms, if anything. They were free to respond in many ways so our results cover a range of possible responses. We grouped the responses in categories. Many of the responses were unique to a given individual so they are not reported here.

GFE

When commenting on what they liked most, subjects identified the same qualities in both Round 1 and Round 2 of testing. The two top-ranking qualities both dealt with clarity—of writing, of design, and of charges. Some of these results were the same as described in the previous section on the most useful information.

Subjects in both rounds of testing reacted strongly to the form's simple language and clear layout, and clear delineation of charges. They consistently chose those qualities as what they liked most about the GFE. That these qualities or sections were most often identified as what subjects liked in both rounds of testing simply reiterates their universal importance and appeal (Figure 14).

Figure 14. What Subjects Liked Most about the GFE



Although the top two qualities subjects liked in Round 2 were the same as Round 1, subjects in Round 2 were more evenly distributed around different qualities about the form that they liked. Subjects only agreed on the top two categories.

Subjects commented on what they liked about the writing of the GFE:

It's easy to read; lays everything out well. (Subject 4071)

A person with a lower education could understand it. (Subject 6071)

Subjects also commented on what they liked about the layout of the GFE:

It's simple; you don't need a college education to understand it, it lays information out simply. (Subject 5052)

Subjects also commented on the delineation of charges in the GFE:

Breaks everything down and lays it out. (Subject 5142)

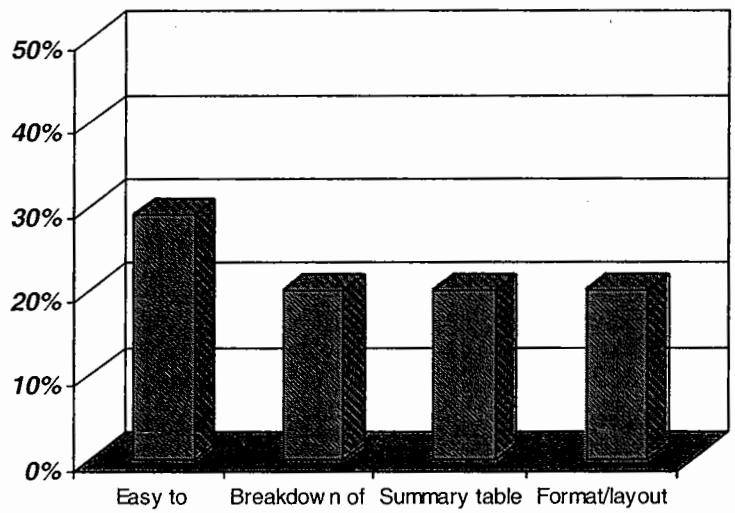
I like the way it's broken down. (Subject 6101)

GMPA/MPO

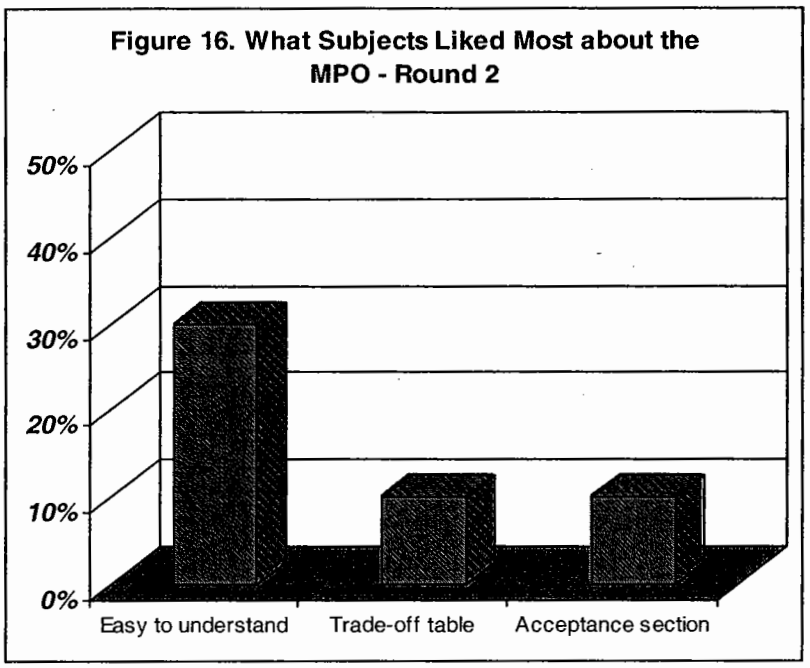
Subjects identified some of the same qualities or sections as ones they liked on the GMPA/MPO as they did on the GFE, while adding some new ones. In responding to the GMPA/MPO, subjects continued to react positively to the writing, breakdown of charges, and layout of the form. In addition, they commented on the summary table in Round 1, and the trade-off table and acceptance section in Round 2.

In Round 1, subjects identified four qualities they liked the most about the GMPA. All of these qualities shown in Figure 15 have to do with clarity of writing, layout, or charges. The summary table provides the fundamental information for the potential homebuyer, and seems to have been the easiest part of the GMPA for subjects to use.

Figure 15. What Subjects Liked Most about the GMPA - Round 1



In Round 2, the greatest number of subjects also identified aspects about the clear writing and layout of the form as what they liked most. In Round 2, subjects identified three qualities as those they liked the most about the MPO (Figure 16).



The section on "Accepting this MPO" was revised between Rounds 1 and 2 in order to make it clearer for subjects. This revision seems to have improved the section dramatically. In the first round many subjects were very intimidated by this section; in the second round a number of subjects mentioned it as one of the best parts of the MPO.

Subjects commented on what they liked about the writing and layout of the GMPA/MPO

> *The simplicity of it all—it's easy to read and the words it uses are really simple. (Subject 5082)*
>
> *Simplicity—there's not a lot of law jargon. You've got room to write things in. (Subject 4022)*
>
> *You can flip through the pages easily—I like the single sided pages. It's easy to read, there's a good flow. (Subject 5041)*

Subjects commented on "Accepting this MPO"

> *[I like the section on] Accepting this Mortgage package -it answers those questions that you might have. (Subject 6011)*

What Subjects Liked Least

We also asked subjects what they liked least. Many did not mention anything. For those that did, there were changes between the two rounds.

GFE

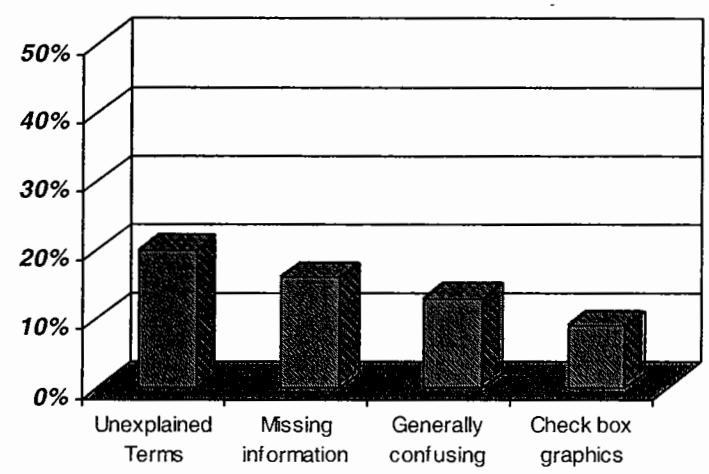
Between Rounds 1 and 2 of testing, subjects because less generally confused about the GFE and were able instead to focus on particular aspects of the form. When subjects were no longer distracted by problem terms and unanswered questions, they were able to focus on the mechanics of working with the physical form itself. Questions of content

and comprehensive clarity seem to have been addressed between Round 1 and 2, leaving more room for comment on navigational techniques.

In Round 1, the elements subjects disliked most were the unexplained terms, missing information, generally confusing content, and the checkbox graphics (Figure 17).

Aside from the check box graphics, subjects focused on confusing content issues in the first round of testing. They were confused by terms and by not being able to find information they wanted.

Figure 17. What Subjects Disliked Most about the GFE– Round 1



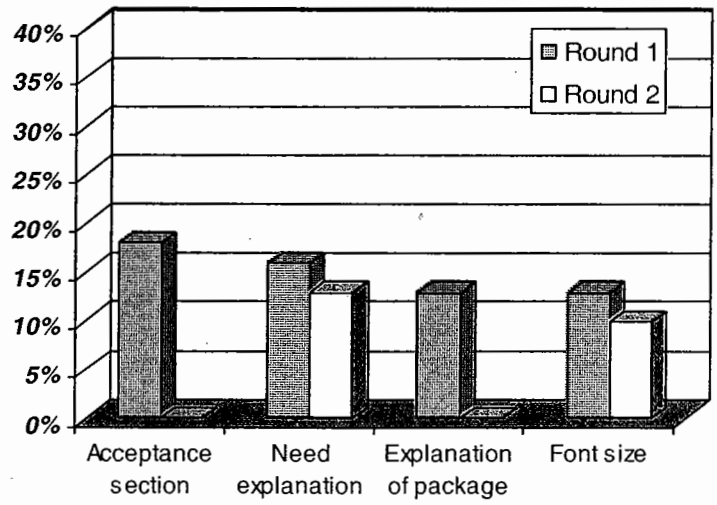
Between Round 1 and Round 2, we used feedback from testing to revise the GFE. Many of these revisions had to do with clarifying problem terms and improving navigation through the form so users could find the information they needed. New information was not added to the form, but because subjects were able to navigate better in Round 2, they no longer felt that information was missing.

In Round 2, the only thing that a number of subjects mentioned that they disliked about the form was the references to other sections. Subjects' dislikes were more varied than in Round 1. When asked what they did not like about the form, more subjects said "nothing" than anything else. Of those who did mention something they disliked, only a few actually had similar comments.

GMPA/MPO

As with the GFE, subjects' responses to the MPO in Round 2 were much more varied than their responses to the GMPA in Round 1. In Round 1, as shown in Figure 18, subjects identified these elements of the form as what they disliked the most: the acceptance section, the lack of sufficient explanation, the lack of

Figure 18. What Subjects Disliked Most about the GMPA/MPO



explanation of what is included in the mortgage package, and the font size.

In Round 2, some of these issues disappeared. The rewriting of the acceptance section had a large impact on subjects' perceptions. Also, the explanation of what was included in the mortgage package caused this concern to also be alleviated. Subjects continued to comment that more explanation was needed and that the font used in the form was too small.

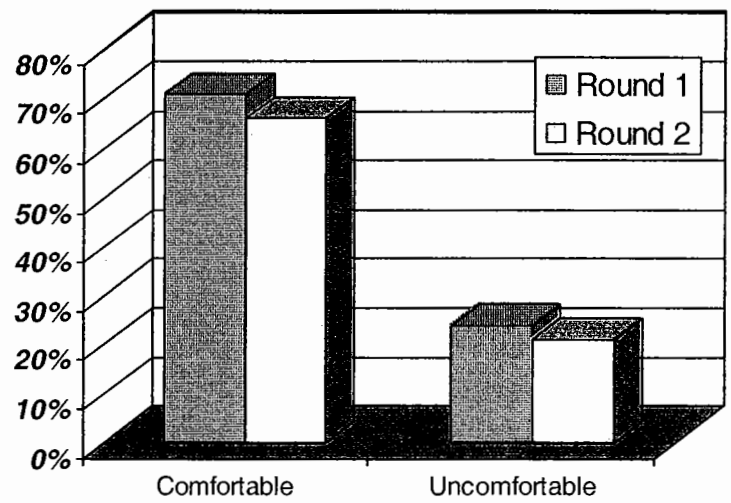
Comfort Level with the Forms

We asked subjects how comfortable or uncomfortable they were with the form after we had completed many of the other questions. We tried to get them to choose one characterization or the other, but if they remained undecided we recorded that as neutral.

GFE

For the GFE there was little change in the results between Round 1 and 2. While the percent of subjects reporting that they were comfortable with the GFE went down between Rounds 1 and 2, the percent of those who were uncomfortable also went down Figure 19). More subjects were not willing to make a choice. The differences are small in any case and may be due to random fluctuations given the sample size.

Figure 19. Subjects' Comfort Level with the GFE

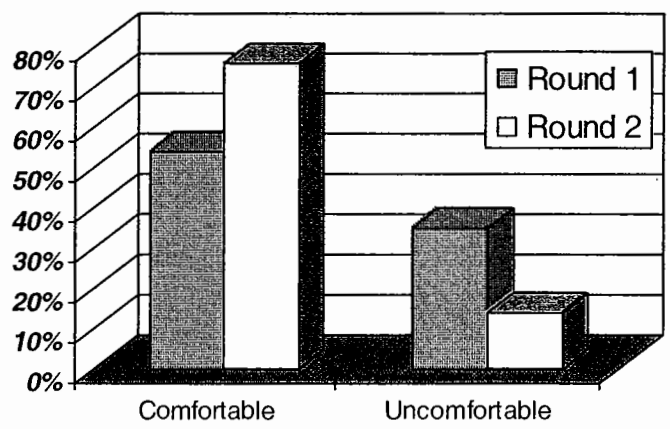


GMPA/MPO

For the GMPA/MPO, the percentage of subjects who were comfortable with the forms increased, while the percentage of subjects who were uncomfortable fell considerably between the two rounds.

Many changes were made in the GMPA/MPO between rounds and they clearly affected the subject

Figure 20. Subjects' Comfort Level with the GMPA/MPO



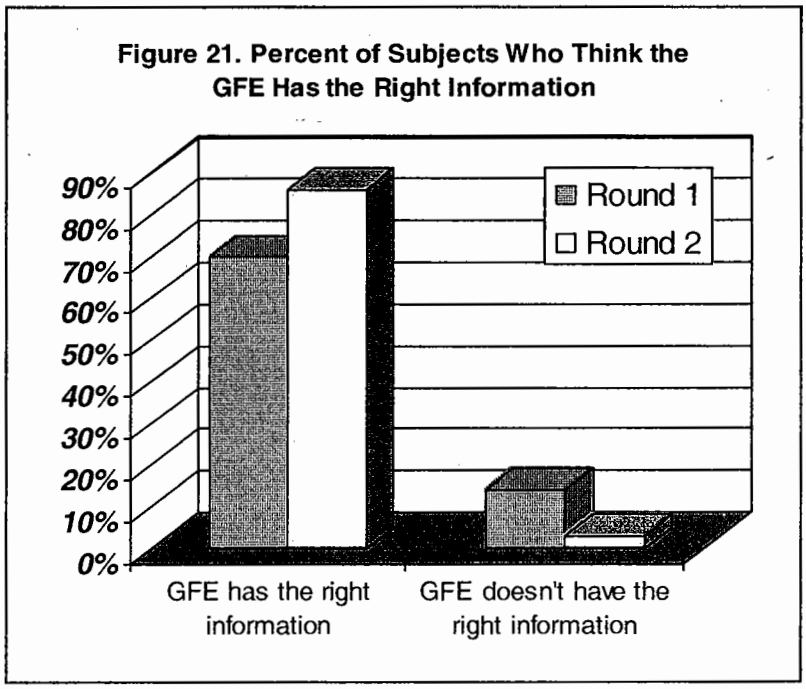
reaction. During the first round, the GMPA was compared unfavorably by many subjects to the GFE. For the second round, a higher percentage of subjects were uncomfortable with the GFE than the MPO. The changes on the MPO made between Rounds 1 and 2 clarified specific questions subjects had about the package, such as how to accept it and what services are included in it. This seems to have reduced the number of subjects who were "uncomfortable" with the form.

Information Provided

We asked a general question about whether subjects felt that the form provided the "right information" for them. As with many of the other measures, there was considerable improvement between the rounds for both forms.

GFE

The percentage of subjects who thought the form provided the right information for them was high in Round 1—70% (Figure 21). This percentage was even higher for Round 2—86% felt that the GFE had the right information for them.

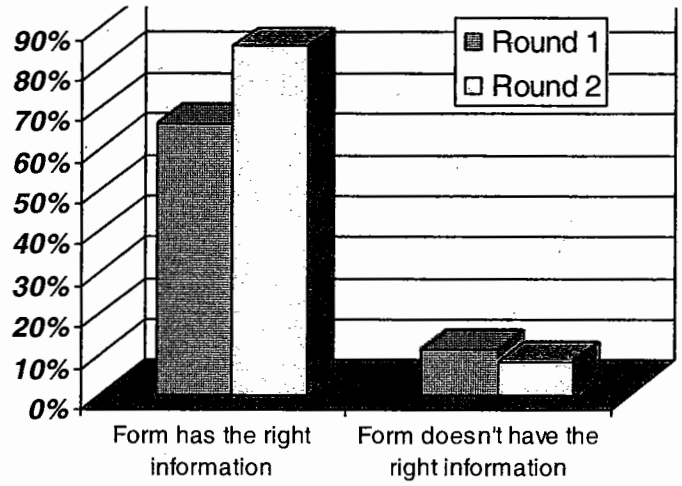


This change—subjects thinking the form had the right information rising while the number of those who thought it did not have the right information falling—is the result of navigation changes, rather than content changes, in the form. We did not drastically alter the content of the GFE between the two rounds, but we changed the presentation of information and the form's navigational elements to help subjects find the information they wanted.

GMPA/MPO

Like the GFE, subjects' perceptions of the information that the MPO provided improved considerably between Round 1 and Round 2. The percent of subjects who thought the information was right increased; the number of those who thought it wasn't decreased. The content of the GMPA/MPO was changed more between Round 1 and Round 2 than was the content of the GFE, so this improvement represents both content and navigational changes.

Figure 22. Percent of Subjects Who Think the GMPA/MPO Has the Right Information



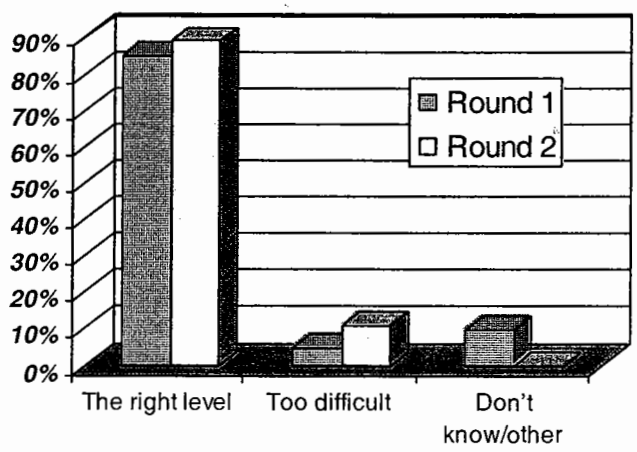
Level of Writing

We asked subjects whether they thought that the form was written at the right level for them. If they said it was not at the right level we noted whether they thought it was too basic or too difficult. None of the subjects felt the forms were too basic, which is not surprising given the complexity of the subject matter.

GFE

In both rounds, a high percentage of the subjects felt that the documents were written at the right level for them (Figure 23). Between Rounds 1 and 2, the percentage of subjects who thought the form was written at the right level for them increased slightly and the percentage who thought the form was too difficult for them also increased. The differences are not very large, however, given the sample size.

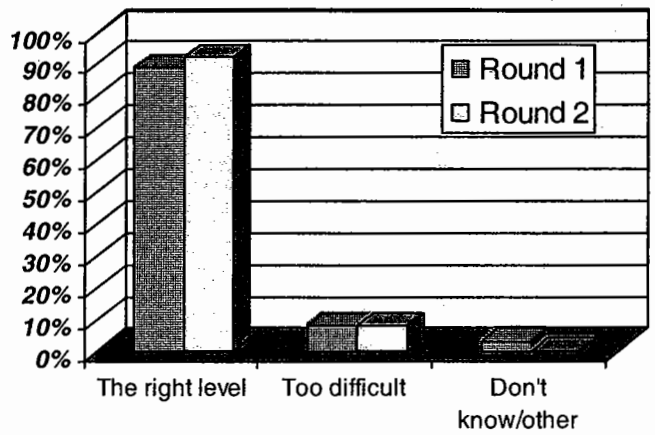
Figure 23. Subjects' Ratings of the Level of Writing in the GFE



GMPA/MPO

The results for the GMPA/MPO were similar to the GFE. In both rounds, high percentages of the subjects felt the forms were written at the right level for them (Figure 24). The percentage of subjects who thought the form was written at the right level increased slightly between Rounds 1 and 2, and the percentage of those who thought the writing was too difficult stayed at exactly the same level.

Figure 24. Subjects' Ratings of the Level of Writing on the GMPA/MPO



5 What Changes Did We Make to the Forms After Each Round of Testing?

We delivered three drafts of the GFE and MPO to HUD, as well as two drafts of the crosswalks from these forms to the HUD-1 settlement statement. Each of the revisions was based on the results of the testing with potential homebuyers. This section gives an overview of the changes that were made in the forms and why they were made.

GFE

The original design of the GFE was a three page form with five major sections. For the first round of testing, we developed two versions of the GFE. One version had a summary of the settlement charges on the first page and the other did not.

Round 1

We found that subjects preferred the version of the GFE with the summary on the first page and were able to use it more successfully in understanding their loan options. Subsequent versions of the GFE all had a summary page on the first page. Some of the other major problems that subjects had during the first round of testing and the changes we made for Round 2 are shown in the table below:

Table 19. GFE Problems and Solutions for the First Round of Testing

Problem	Change Made to the GFE
Many terms were not understood; in particular, subjects did not understand "loan originator" or "adjusted origination charge."	We eliminated the term "loan originator" from the form. We defined as many other terms as possible in context.
Subjects were annoyed by references to the second page that were on the first page; they did not want to immediately flip to the next page.	We switched the order of the tables on the first page in order for subjects to encounter the references when they are about to turn to the next page anyway.
Some subjects began reading the adjustable rate information even though the example was for a fixed rate loan.	We made a better visual separation between the columns for the fixed rate and adjustable rate loans.
Subjects were not clear how much time they had to consider the offer.	We put a date in the first paragraph.

Problem	Change Made to the GFE
Subjects were not able to pick out the information about the tolerances.	We created a separate section for the tolerance information.
Many of the settlement charges were not clear to the subjects because no explanations were included.	We created a brief explanation of each of the settlement charges.
Bullets and checkboxes were not clear in the form; sometimes subjects thought they should check something when they shouldn't and vice versa.	We only used checkboxes when something should be checked.
Sometimes subjects were not clear what charges added to the total on the second page.	We added letters (A and B) that were then shown next to the total (A+B) to guide the subjects.
Subjects liked the trade-off table but did not fully understand it.	We placed the table before the text. We rewrote the headings on the columns to make them more oriented to the homebuyer's issues. We rewrote the text to improve clarity.
The section of the third page that gave a further breakdown of some of the charges on the second page confused many subjects causing some to make errors on the best choice of a loan.	We rewrote this section and made clearer references to page 2.

Round 2

Generally the changes made in the forms worked quite well for the second round of testing. Almost all of the indicators that we measured improved. Nevertheless, we made additional changes in the GFE to improve clarity.

Table 20. GFE Problems and Solutions for the Second Round of Testing

Problem	Change Made to the GFE
Many subjects continued to want more information on who to call with their questions.	We added a line to the introductory section where a contact number could be added.
One of the terms that continued to be confusing to subjects was "third party."	We eliminated this reference wherever it appeared.
Although the tolerance information worked much better during the second round of testing, subjects were confused by the charges that repeated across columns.	We added a further qualifying sentence about the charges that repeated and improved the graphical appearance.

Problem	Change Made to the GFE
Two of the tables on the third page of the GFE refer to charges on the second page. Subjects question why this information is not on the second page.	We moved these two tables up on the third page so that it would be clearer that this information would not fit on the second page and that it was being included as soon as possible after the second page.

GMPA and MPO

For the first round of testing, we only developed one version of the GMPA that had a summary on the first page. We used the results from the GFE testing to conclude that subjects seemed to prefer the summary page and continued with that format in the second round.

Round 1

Some of the problems that subjects had with the GMPA are the same as they had with the GFE and some were different. We are including the ones that were different in the table below.

Table 21. GMPA Problems and Solutions for the First Round of Testing

Problem	Change Made to the GMPA
Subjects reacted poorly to the name of the Guaranteed Mortgage Package Agreement (GMPA). They did not understand what was guaranteed. The name seemed to make them suspicious rather than being reassuring.	We changed the name of the form to the Mortgage Package Offer, or MPO.
On the second page of the GMPA, subjects did not understand what was included in the mortgage package. Many said that they preferred the GFE because it gave more details. The GMPA received much lower ratings than the GFE because people were suspicious about it.	We included a description of the services that would be included in the mortgage package. This description was made to be as parallel to the GFE as possible so that homebuyers could compare the two documents.
Subjects did not understand the last section of the form that described what to do when accepting the package. The wording of this section frightened them and some subjects who had liked the GMPA turned against it due to this last section. Many subjects wanted to know if the fee applied to their settlement costs or not.	We completely rewrote the acceptance section. We tried to make the language more inviting and put in more explanatory headings. We clarified that the fee would be applied towards their settlement costs.

Round 2

During the second round of testing the MPO received much more favorable results and ratings than the GMPA had done. For the final revisions, we made one of the changes also made for the GFE: We added a line to the introductory section where a contact number could be added. In addition we made a few other changes that were unique to the MPO.

Table 22. MPO Problems and Solutions for the Second Round of Testing

Problem	Change Made to the GMPA
Some subjects continued to want to have the same detailed charges on the MPO as they had on the GFE. Although they were much more satisfied with the MPO compared with the GMPA, they still thought that the charges should be listed.	We changed the graphical design of the second page of the form to more clearly indicate that there are no charges shown for each category.
Subjects generally understood the last section of the form that described what to do when accepting the package. However, some subjects were still somewhat confused about what they were supposed to do next.	We changed the order of the paragraphs to be more logical. We added steps to take to accept the package.

Crosswalk

The crosswalk from the GFE to the HUD-1 settlement statement was tested for the first time in Round 2. The crosswalk from the MPO to the HUD-1 has not been tested at all.

Table 23. Crosswalk Problems and Solutions for the Second Round of Testing

Problem	Change Made to the Crosswalk
Subjects made most of their errors with the charges that could appear in different parts of the crosswalk depending upon whether they chose the provider of the service or not. Subjects tended to enter the same information many times, which made the total not add properly.	We developed an initial table for subjects to complete before working on the crosswalk. The table tells them where to enter the information depending upon the provider of the service. We emphasized that a charge can only be entered once in the crosswalk.
Subjects did not seem to see that the three tables added to a total for both the GFE and the HUD-1.	We added visual clues to help the subjects see the totals more clearly. We used the same device that had been successful on the GFE.

Problem	Change Made to the Crosswalk
Subjects could not distinguish between items that the lender provides and those provided by third parties. These need to be placed in different sections of the crosswalk because it potentially affects the tolerances.	This problem cannot be easily fixed without changing the HUD-1.
Subjects did not use the information from the GFE to guide their search for numbers on the HUD-1. For example, if they know an appraisal was done, they can search for an appraisal on the HUD-1 and enter it in the same row.	We added a section on "helpful hints" that instructs them to use the GFE to find charges on the HUD-1.
Some subjects did not know where to look for charges on the HUD-1.	We added wording directing them to the second page of the HUD-1.
Some subjects did not understand where to find a number when we included an entire series (800-899).	In the section on "helpful hints," we added an explanation of the series.

6 Recommendations

We feel that the GFE and MPO can be used and understood by new and experienced homebuyers in their present format based on the second round of testing. If HUD decides to change certain aspects of the proposed rule under RESPA, we recommend that any necessary changes to the forms be tested again before implementation. We have three additional recommendations regarding the forms.

1. Develop Other Materials to Aid Understanding of the Settlement Process

Although homebuyers are able to use the GFE and the MPO to shop for the best mortgage, we noticed that they still have some questions about terms and that some are confused about the settlement process itself. Supplemental materials to aid understanding could take several forms:

- A glossary could be included with the GFE and MPO
- Homebuyers could be referred to a HUD web-site that has information about the homebuying process; this reference could be put on the GFE and MPO
- A booklet or pamphlet could be developed that would explain the process

We recommend that HUD develop at least one of these alternatives.

2. Test the Crosswalk Further Before Implementation

The crosswalk was only tested during the second round of testing with 15 potential homebuyers at 3 sites. This testing yielded important insights as to where people have trouble with using the form. We made a major modification to the form to try to help homebuyers with the difficult aspects of the form, but without further testing we cannot be confident that it will solve the problems. The crosswalk is difficult, but very important in meeting HUD goals. Another round of testing would allow a better crosswalk to be developed. Further, the crosswalk from the MPO to the HUD-1 was not tested at all due to the restrictions on the number of subjects available.

3. Consider Changes to the HUD-1 to Facilitate the Use of the Crosswalk

Some of the categories on the GFE do not map easily to the HUD-1 in its current format. The HUD-1 could stay largely the same, but some further breakdowns in certain series between charges by the lender and charges by third parties would help homebuyers to work with the crosswalk more easily. The series that could be broken down further are the 800 series and the 1300 series.

Appendix A: Recruiting Screener

HUD Testing: Screening Protocol for Potential Borrowers (Attachment A-Part 1)

Eligibility Requirements

We are recruiting a total of 90 new and experienced potential borrowers in five 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 15 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 $__ 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, that is being 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 $___ 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	9:00 a.m.	1 p.m.	5:00 p.m.
Monday			
Tuesday			
Wednesday			
Thursday			
Friday			

_____ 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].

Appendix B:
Consent Form and Questionnaire

Confidentiality Statement and Consent Form for the HUD GFE and MPO Redesign Project

The Kleimann Communication Group is a contractor working on a project for the U.S. Department of Housing and Urban Development (HUD). This project will collect information on the ability of first-time and repeat homebuyers to understand newly designed Good Faith Estimate and Mortgage Package Offer forms and other forms used at settlement. We want to assure you that we maintain the confidentiality of your identity and participation in this project.

This form is to inform you of your rights as you talk with us today.

We want you to understand the following:

- Your participation is completely voluntary. You do not have to answer any questions you do not want to.
- You may stop participating at any time.
- Your answers and comments will be kept confidential. Your name will not be used in any report for this project.
- The interview will take no more than 1 ½ hours to complete. You will receive $50 at the completion of the interview.
- With your permission, we are videotaping and audiotaping our session with you, but it is only so that we can review your comments and accurately describe them.
- Even if you sign this form, you can stop participating at any time.

If you agree to help us, please print your name, then sign and date this form below.

We thank you for your participation in this important project to improve the ability of borrowers to understand mortgage lending and real estate transactions.

Your Name _____

Your Signature _____

Today's Date _____

If you have any comments about this testing session, please write to Bill Reid, U.S. Department of Housing and Urban Development, 451 7th Street SW, Washington, DC 20410.

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.

Appendix C:
Round 1 Forms and Script Used in Testing

Good Faith Estimate of Settlement Costs (GFE)

About Your GFE

This GFE gives you an estimate of how much money you'll need to get a mortgage loan from us, Oak Financial your loan originator, for the property located at 123 Fern Lane; Anywhere, USA.

Use this GFE to help you compare different loan offers with each other. As loan originators, we cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should get estimates from different loan originators. By comparing these estimates, you can pick the loan with the most reasonable costs for you.

Keep this GFE to compare to the HUD-1 settlement statement you get at settlement.

Summary of Your Loan Terms for This Estimate

This GFE is valid for 30 days. Your estimated settlement charges are shown below. See page 2 for the items that can change before settlement.

Adjusted Origination Charge *(see items 1 and 2 on page 2)*	$2,000.00
All Other Charges *(see items 3 through 10 on page 2)*	$3,700.00
Total Estimated Settlement Charges	$5,700.00

The interest rate, monthly payment, and annual percentage rate (APR) shown below can change until you lock in your interest rate.

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% initially, then it will adjust The interest rate adjustment will be based on the index and a margin of % Your first adjustment will occur in (months or years)
Your loan term	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$699.21	$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

GFE 1A

Understanding Your Estimated Settlement Charges

Charges—Origination

1. Our origination services charge *This amount cannot increase at settlement on your HUD-1 settlement statement.*	$4,500.00
2. Your charge or credit for the specific interest rate chosen ☑ **For a higher interest rate loan**—the payment by the lender on your behalf that reduces the up-front charge you pay ☐ **For a lower interest rate loan**—the additional up-front charge you pay the lender *This amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate.*	-$2,500.00
Adjusted Origination Charge	$2,000.00

Charges—All Other

3. Third party services that we select *Service* — *Cost* Appraisal — $300.00 Credit Report — 25.00 Tax Service — 75.00 *These amounts cannot increase at settlement on your HUD-1 settlement statement.*	$400.00
4. Title services and lender's title insurance ☐ If we select your title services and title insurance, then *this amount cannot increase at settlement on your HUD-1 settlement statement.* ☐ If we help you select your title services and title insurance, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own title services and title insurance, then *this amount can change at settlement on your HUD-1 settlement statement.*	$900.00
5. Required third party services that you can shop for *Service* — *Cost* Survey — $200.00 ☐ If we help you select the providers for these services, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own providers for these services, then *this amount can change at settlement on your HUD-1 settlement statement.*	$200.00
6. Government taxes and fees *This amount cannot increase at settlement on your HUD-1 settlement statement.*	$600.00
7. Reserves or escrow *This amount cannot increase at settlement more than 10% on your HUD-1 settlement statement, assuming you close by* 3/31/03	$697.25
8. Per diem interest charges This amount is $20.55 per day for 5 days (if your closing date is 3/25/03) *The per day amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate. The total can change at settlement if the amount per day or your closing date changes.*	$102.75
9. Hazard insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$500.00
10. Optional owner's title insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$300.00
All Other Charges	$3,700.00

Total Estimated Settlement Charges	$5,700.00

GFE1A

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

This GFE shows you the terms for a particular loan. You may have some options as shown below. The table below shows some of the trade-offs you can make between the interest rate you choose and the settlement charges you pay for your loan.

☐ **You can pay more in settlement charges to lower your interest rate.** You can lower the interest rate on your loan by paying more settlement charges. If you choose this option, your lower interest rate will make your monthly payments lower. (The table below shows how a lower interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

☐ **You can pay for some or all of your settlement charges through a higher interest rate.** You may be able to pay for your settlement charges by choosing a higher interest rate. If you choose this option, your higher interest rate will make your monthly payments higher. (The table below shows how a higher interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

This table helps you compare how different choices on your settlement costs and on your interest rate affect your loan. It compares costs for three loans. The loan in this GFE is in the middle column. To the left is a loan with a lower interest rate. To the right is a loan with a higher interest rate.

		A loan with a lower interest rate	The loan in this GFE	A loan with a higher interest rate
	Your loan amount	$100,000	$100,000	$100,000
	Your interest rate	7.25%	7.50%	7.75%
Comparing your monthly payment	How much your monthly payment will be	$682.18	$699.21	$716.41
	How much more or less in monthly payments from this GFE	You will pay $17.03 less every month	No Change	You will pay $17.20 more every month
Comparing your cost for different interest rates	How much more or less will you pay at closing with this interest rate	Your lower interest rate will raise your closing by $1,000	No Change	Your higher interest rate will lower your closing by $1,000
Comparing your settlement charges	How much your total estimated settlement charges will be	$6,700.00	$5,700.00	$4,700.00

Understanding the Subtotals for Loan Origination and Title Services

We are required, by Federal Regulations, to tell you the subtotals for:

☐ the lender and mortgage broker origination charges,

☐ the charges for title and settlement agent services (including any commissions for the title insurance), and

☐ the title insurance premium.

Service	Subtotal
Mortgage Broker Charges	$4,350.00
Lender Charges	$150.00
Title Agent Charges	$675.00
Title Insurance Premium	$225.00

GFE1A

Good Faith Estimate of Settlement Costs (GFE)

About Your GFE

This GFE gives you an estimate of how much money you'll need to get a mortgage loan from us, Pine Tree Bank your loan originator, for the property located at 123 Fern Lane; Anywhere, USA.

Use this GFE to help you compare different loan offers with each other. As loan originators, we cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should get estimates from different loan originators. By comparing these estimates, you can pick the loan with the most reasonable costs for you.

Keep this GFE to compare to the HUD-1 settlement statement you get at settlement.

Summary of Your Loan Terms for This Estimate

This GFE is valid for 30 days. Your estimated settlement charges are shown below. See page 2 for the items that can change before settlement.

Adjusted Origination Charge *(see items 1 and 2 on page 2)*	$3,000.00
All Other Charges *(see items 3 through 10 on page 2)*	$3,700.00
Total Estimated Settlement Charges	$6,700.00

The interest rate, monthly payment, and annual percentage rate (APR) shown below can change until you lock in your interest rate.

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% initially, then it will adjust The interest rate adjustment will be based on the index and a margin of % Your first adjustment will occur in (months or years)
Your loan term	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$699.21	$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

GFE1B

Understanding Your Estimated Settlement Charges

Charges—Origination

1. Our origination services charge *This amount cannot increase at settlement on your HUD-1 settlement statement.*	$3,000.00
2. Your charge or credit for the specific interest rate chosen ☐ **For a higher interest rate loan**—the payment by the lender on your behalf that reduces the up-front charge you pay ☐ **For a lower interest rate loan**—the additional up-front charge you pay the lender *This amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate.*	—
Adjusted Origination Charge	$ 3,000.00

Charges—All Other

3. Third party services that we select *Service* / *Cost* Appraisal — $300.00 Credit Report — 25.00 — 75.00 *These amounts cannot increase at settlement on your HUD-1 settlement statement.*	$400.00
4. Title services and lender's title insurance ☐ If we select your title services and title insurance, then *this amount cannot increase at settlement on your HUD-1 settlement statement.* ☐ If we help you select your title services and title insurance, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own title services and title insurance, then *this amount can change at settlement on your HUD-1 settlement statement.*	$900.00
5. Required third party services that you can shop for *Service* / *Cost* Survey — $200.00 ☐ If we help you select the providers for these services, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own providers for these services, then *this amount can change at settlement on your HUD-1 settlement statement.*	$200.00
6. Government taxes and fees *This amount cannot increase at settlement on your HUD-1 settlement statement.*	$600.00
7. Reserves or escrow *This amount cannot increase at settlement more than 10% on your HUD-1 settlement statement, assuming you close by* 3/13/03	$697.25
8. Per diem interest charges This amount is $20.55 per day for 5 days (if your closing date is 3/25/03) *The per day amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate. The total can change at settlement if the amount per day or your closing date changes.*	$102.75
9. Hazard insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$500.00
10. Optional owner's title insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$300.00
All Other Charges	$3,700.00

Total Estimated Settlement Charges	$6,700.00

GFE 1B

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

This GFE shows you the terms for a particular loan. You may have some options as shown below. The table below shows some of the trade-offs you can make between the interest rate you choose and the settlement charges you pay for your loan.

☐ **You can pay more in settlement charges to lower your interest rate.** You can lower the interest rate on your loan by paying more settlement charges. If you choose this option, your lower interest rate will make your monthly payments lower. (The table below shows how a lower interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

☐ **You can pay for some or all of your settlement charges through a higher interest rate.** You may be able to pay for your settlement charges by choosing a higher interest rate. If you choose this option, your higher interest rate will make your monthly payments higher. (The table below shows how a higher interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

This table helps you compare how different choices on your settlement costs and on your interest rate affect your loan. It compares costs for three loans. The loan in this GFE is in the middle column. To the left is a loan with a lower interest rate. To the right is a loan with a higher interest rate.

		A loan with a lower interest rate	The loan in this GFE	A loan with a higher interest rate
	Your loan amount	$100,000	$100,000	$100,000
	Your interest rate	7.25%	7.50%	7.75%
Comparing your monthly payment	How much your monthly payment will be	$682.18	$699.21	$716.41
	How much more or less in monthly payments from this GFE	You will pay $17.03 less every month	No Change	You will pay $17.20 more every month
Comparing your cost for different interest rates	How much more or less will you pay at closing with this interest rate	Your lower interest rate will raise your closing by $1,000	No Change	Your higher interest rate will lower your closing by $1,000
Comparing your settlement charges	How much your total estimated settlement charges will be	$7,700.00	$6,700.00	$5,700.00

Understanding the Subtotals for Loan Origination and Title Services

We are required, by Federal Regulations, to tell you the subtotals for:

☐ the lender and mortgage broker origination charges,

☐ the charges for title and settlement agent services (including any commissions for the title insurance), and

☐ the title insurance premium.

Service	Subtotal
Mortgage Broker Charges	—
Lender Charges	$3,000.00
Title Agent Charges	$675.00
Title Insurance Premium	$225.00

GFE1B

Good Faith Estimate of Settlement Costs (GFE)

About Your GFE

This GFE gives you an estimate of how much money you'll need to get a mortgage loan from us, Oak Financial your loan originator, for the property located at 123 Fern Lane; Anywhere, USA.

Use this GFE to help you compare different loan offers with each other. As loan originators, we cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should get estimates from different loan originators. By comparing these estimates, you can pick the loan with the most reasonable costs for you.

Keep this GFE to compare to the HUD-1 settlement statement you get at settlement.

Summary of Your Loan Terms for This Estimate

This GFE is valid for 30 days. The interest rate, monthly payment, and annual percentage rate (APR) can change until you lock in your interest rate.

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% initially, then it will adjust The interest rate adjustment will be based on the index and a margin of % Your first adjustment will occur in (months or years)
Your loan term	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$ 699.21	$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

GFE 2A

Understanding Your Estimated Settlement Charges

Charges—Origination

1. Our origination services charge *This amount cannot increase at settlement on your HUD-1 settlement statement.*	$4,500.00
2. Your charge or credit for the specific interest rate chosen ☑ **For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay** ☐ **For a lower interest rate loan—the additional up-front charge you pay the lender** *This amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate.*	−$2,500.00
Adjusted Origination Charge	$2,000.00

Charges—All Other

3. Third party services that we select *Service* — *Cost* Appraisal — $300.00 Credit Report — 25.00 Tax Service — 75.00 *These amounts cannot increase at settlement on your HUD-1 settlement statement.*	$400.00
4. Title services and lender's title insurance ☐ If we select your title services and title insurance, then *this amount cannot increase at settlement on your HUD-1 settlement statement.* ☐ If we help you select your title services and title insurance, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own title services and title insurance, then *this amount can change at settlement on your HUD-1 settlement statement.*	$900.00
5. Required third party services that you can shop for *Service* — *Cost* Survey — $200.00 ☐ If we help you select the providers for these services, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own providers for these services, then *this amount can change at settlement on your HUD-1 settlement statement.*	$200.00
6. Government taxes and fees *This amount cannot increase at settlement on your HUD-1 settlement statement.*	$600.00
7. Reserves or escrow *This amount cannot increase at settlement more than 10% on your HUD-1 settlement statement, assuming you close by* 3/31/03	$697.25
8. Per diem interest charges This amount is $20.55 per day for 5 days (if your closing date is 3/25/03) *The per day amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate. The total can change at settlement if the amount per day or your closing date changes.*	$102.75
9. Hazard insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$500.00
10. Optional owner's title insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$300.00
All Other Charges	$3,700.00

Total Estimated Settlement Charges	$5,700.00

GFE2A

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

This GFE shows you the terms for a particular loan. You may have some options as shown below. The table below shows some of the trade-offs you can make between the interest rate you choose and the settlement charges you pay for your loan.

☐ **You can pay more in settlement charges to lower your interest rate.** You can lower the interest rate on your loan by paying more settlement charges. If you choose this option, your lower interest rate will make your monthly payments lower. (The table below shows how a lower interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

☐ **You can pay for some or all of your settlement charges through a higher interest rate.** You may be able to pay for your settlement charges by choosing a higher interest rate. If you choose this option, your higher interest rate will make your monthly payments higher. (The table below shows how a higher interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

This table helps you compare how different choices on your settlement costs and on your interest rate affect your loan. It compares costs for three loans. The loan in this GFE is in the middle column. To the left is a loan with a lower interest rate. To the right is a loan with a higher interest rate.

		A loan with a lower interest rate	The loan in this GFE	A loan with a higher interest rate
	Your loan amount	$100,000	$100,000	$100,000
	Your interest rate	7.25%	7.50%	7.75%
Comparing your monthly payment	How much your monthly payment will be	$682.18	$699.21	$716.41
	How much more or less in monthly payments from this GFE	You will pay $17.03 less every month	No Change	You will pay $17.20 more every month
Comparing your cost for different interest rates	How much more or less will you pay at closing with this interest rate	Your lower interest rate will raise your closing by $1,000	No Change	Your higher interest rate will lower your closing by $1,000
Comparing your settlement charges	How much your total estimated settlement charges will be	$6,700.00	$5,700.00	$4,700.00

Understanding the Subtotals for Loan Origination and Title Services

We are required, by Federal Regulations, to tell you the subtotals for:

☐ the lender and mortgage broker origination charges,

☐ the charges for title and settlement agent services (including any commissions for the title insurance), and

☐ the title insurance premium.

Service	Subtotal
Mortgage Broker Charges	$4,350.00
Lender Charges	$150.00
Title Agent Charges	$675.00
Title Insurance Premium	$225.00

FF3A

Good Faith Estimate of Settlement Costs (GFE)

About Your GFE

This GFE gives you an estimate of how much money you'll need to get a mortgage loan from us, Pine Tree Bank your loan originator, for the property located at 123 Fernhane; Anywhere, USA.

Use this GFE to help you compare different loan offers with each other. As loan originators, we cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should get estimates from different loan originators. By comparing these estimates, you can pick the loan with the most reasonable costs for you.

Keep this GFE to compare to the HUD-1 settlement statement you get at settlement.

Summary of Your Loan Terms for This Estimate

This GFE is valid for 30 days. The interest rate, monthly payment, and annual percentage rate (APR) can change until you lock in your interest rate.

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% initially, then it will adjust The interest rate adjustment will be based on the index and a margin of % Your first adjustment will occur in (months or years)
Your loan term	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$699.21	$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

GFE 2B

Understanding Your Estimated Settlement Charges

Charges—Origination

1. Our origination services charge *This amount cannot increase at settlement on your HUD-1 settlement statement.*	$3,000.00
2. Your charge or credit for the specific interest rate chosen ☐ **For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay** ☐ **For a lower interest rate loan—the additional up-front charge you pay the lender** *This amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate.*	—
Adjusted Origination Charge	$3,000.00

Charges—All Other

3. Third party services that we select *Service* — *Cost*		
Appraisal	$300.00	
Credit Report	25.00	
Tax Service	75.00	
These amounts cannot increase at settlement on your HUD-1 settlement statement.		$400.00
4. Title services and lender's title insurance ☐ If we select your title services and title insurance, then *this amount cannot increase at settlement on your HUD-1 settlement statement.* ☐ If we help you select your title services and title insurance, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own title services and title insurance, then *this amount can change at settlement on your HUD-1 settlement statement.*		$900.00
5. Required third party services that you can shop for *Service* — *Cost*		
Survey	$200.00	
☐ If we help you select the providers for these services, then *this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.* ☐ If you select your own providers for these services, then *this amount can change at settlement on your HUD-1 settlement statement.*		$200.00
6. Government taxes and fees *This amount cannot increase at settlement on your HUD-1 settlement statement.*		$600.00
7. Reserves or escrow *This amount cannot increase at settlement more than 10% on your HUD-1 settlement statement, assuming you close by ___/___/___.*		$697.25
8. Per diem interest charges This amount is $20.55 per day for 5 days (if your closing date is 3/25/03) *The per day amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate. The total can change at settlement if the amount per day or your closing date changes.*		$102.75
9. Hazard insurance *This amount can change at settlement on your HUD-1 settlement statement.*		$500.00
10. Optional owner's title insurance *This amount can change at settlement on your HUD-1 settlement statement.*		$300.00
All Other Charges		$3,700.00

Total Estimated Settlement Charges	$6,700.00

GFE 2B

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

This GFE shows you the terms for a particular loan. You may have some options as shown below. The table below shows some of the trade-offs you can make between the interest rate you choose and the settlement charges you pay for your loan.

☐ **You can pay more in settlement charges to lower your interest rate.** You can lower the interest rate on your loan by paying more settlement charges. If you choose this option, your lower interest rate will make your monthly payments lower. (The table below shows how a lower interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

☐ **You can pay for some or all of your settlement charges through a higher interest rate.** You may be able to pay for your settlement charges by choosing a higher interest rate. If you choose this option, your higher interest rate will make your monthly payments higher. (The table below shows how a higher interest rate loan compares to the terms that you've chosen for the loan in this GFE.)

This table helps you compare how different choices on your settlement costs and on your interest rate affect your loan. It compares costs for three loans. The loan in this GFE is in the middle column. To the left is a loan with a lower interest rate. To the right is a loan with a higher interest rate.

		A loan with a lower interest rate	The loan in this GFE	A loan with a higher interest rate
	Your loan amount	$100,000	$100,000	$100,000
	Your interest rate	7.25%	7.50%	7.75%
Comparing your monthly payment	How much your monthly payment will be	$682.18	$699.21	$716.41
	How much more or less in monthly payments from this GFE	You will pay $17.03 less every month	No Change	You will pay $17.20 more every month
Comparing your cost for different interest rates	How much more or less will you pay at closing with this interest rate	Your lower interest rate will raise your closing by $1,000	No Change	Your higher interest rate will lower your closing by $1,000
Comparing your settlement charges	How much your total estimated settlement charges will be	$7,700.00	$6,700.00	$5,700.00

Understanding the Subtotals for Loan Origination and Title Services

We are required, by Federal Regulations, to tell you the subtotals for:

☐ the lender and mortgage broker origination charges,

☐ the charges for title and settlement agent services (including any commissions for the title insurance), and

☐ the title insurance premium.

Service	Subtotal
Mortgage Broker Charges	—
Lender Charges	$3,000.00
Title Agent Charges	$675.00
Title Insurance Premium	$225.00

GFE 2B

Guaranteed Mortgage Package Agreement (GMPA)

About Your GMPA

This GMPA is an offer for a mortgage loan from us Maple Realty, your loan originator, for property located at 123 Fern Lane; Anywhere, USA

The GMPA has two parts. The first part is a guaranteed price for most of the settlement costs and an estimate of how much your other required settlement costs will be. The second part is an interest rate that varies until you lock in your rate. If you do not lock in the rate, the way it varies is described on the last page of this GMPA.

This GMPA is based on your statements that your gross monthly income is $3,500.00, the value of the property is $120,000.00 and on a credit analysis performed by the packager. This agreement is subject to final verification of your monthly income, the property value, your credit rating, and other information provided by you.

Use this GMPA to help you compare different loan offers with each other. As loan originators, we cannot guarantee that we are getting you the best possible loan costs or interest rates that are available. You should get estimates from different loan originators. By comparing these estimates, you can pick the loan with the most reasonable costs for you.

Keep this GMPA to compare to the HUD-1 settlement statement you get at settlement.

Summary of Your Loan Terms

These Loan Terms are valid at the time you get this offer. However, the interest rate, monthly payment, and annual percentage rate (APR) can change until you lock in your interest rate. See page 3, **Accepting this Mortgage Package Agreement**, for more information about locking in your interest rate and accepting these loan terms.

Charge for Guaranteed Mortgage Package *(see item 1 on page 2)*	$4,600.00
Charges for Settlement Services Outside the Package *(see items 2–5 on page 2)*	1,600.00
Total Estimated Settlement Charges	$6,200.00

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% initially, then it will adjust The interest rate adjustment will be based on the index and a margin of % Your first adjustment will occur in (months or years)
Your loan term	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$699.21	$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

Understanding the Estimated Charges for Your Loan

Charge for Your Guaranteed Mortgage Package

1. Guaranteed mortgage package This mortgage package includes all of the charges you need to pay for your loan except those listed below. *This amount cannot increase at settlement on your HUD-1 settlement statement.*	
Charge for Guaranteed Mortgage Package	$ 4,600.00

Charges for Settlement Services Outside the Package

2. Reserves or escrow *This amount cannot increase at settlement by more than 10% on your HUD-1 settlement statement.*	$697.25
3. Per diem interest charges This amount is $20.55 per day for 5 days (if your closing date is 3/25/03) *The per day amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate. The total can change at settlement if the amount per day or your closing date changes.*	$102.75
4. Hazard insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$500.00
5. Optional owner's title insurance *This amount can change at settlement on your HUD-1 settlement statement.*	$300.00
Charges for Settlement Services Outside the Package	$ 1,600.00
Total Estimated Settlement Charges	$ 6,200.00

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

This GMPA shows you the terms for a particular loan. You may have some options as shown below. The table below shows some of the trade-offs you can make between the interest rate you choose and the settlement charges you pay for your loan.

☐ **You can pay more at settlement to lower your interest rate.** You can lower the interest rate on your loan by paying more at your settlement. If you choose this option, your lower interest rate will make your monthly payments lower. (The table below shows how a lower interest rate loan compares to the terms that you've chosen for the loan in this GMPA.)

☐ **You can pay for your settlement through a higher interest rate.** You may be able to pay for your settlement by choosing a higher interest rate. If you choose this option, your higher interest rate will make your monthly payments higher. (The table below shows how a higher interest rate loan compares to the terms that you've chosen for the loan in this GMPA.)

This table helps you compare how different choices on your settlement costs and on your interest rate affect your loan. It compares costs for three loans. The loan in this GMPA is in the middle column. To the left is a loan with a lower interest rate. To the right is a loan with a higher interest rate.

		A loan with a lower interest rate	The loan in this GMPA	A loan with a higher interest rate
	Your loan amount	$100,000	$100,000	$100,000
	Your interest rate	7.25%	7.50%	7.75%
Comparing your monthly payment	How much your monthly payment will be	$682.18	$699.21	$716.41
	How much more or less in monthly payments from this GFE	You will pay $17.03 less every month	No Change	You will pay $17.20 more every month
Comparing your cost for different interest rates	How much more or less will you pay at closing with this interest rate	Your lower interest rate will raise your closing by $1,000	No Change	Your higher interest rate will lower your closing by $1,000
Comparing your settlement charges	How much your total estimated settlement charges will be	$7,200.00	$6,200.00	$5,200.00

Services Included in the Package

The following services, if checked below, are included in this package and you may receive a copy of any reports that we receive for them:

- ☐ Pest Inspection
- ☑ Lender's Title Insurance
- ☑ Property Appraisal
- ☑ Credit Report

Accepting this Mortgage Package Agreement

If you want to accept this offer you must sign, date, and return the GMPA to us on or before 1/15/03 with a fee of $ 325.00 towards your total settlement charges. To accept you must give us the fee and do one of the following:

☐ **Tell us you want to lock in your interest rate.** If you sign this agreement immediately you may lock in the interest rate that is listed on the first page of this GMPA. If you wait to sign this agreement, but do so within 30 days, the interest rate will be not more than 2.5% over the 10-yr U.S. Treasury Bond index. You can check the 10-yr U.S. Treasury Bond index yourself by looking in the Wall St. Journal (name of publication).

☐ **Tell us you want to float your rate.** If you sign this agreement within 30 days, you may let your rate float and lock it in within 5 days before settlement. The interest rate will be not more than 2.5% over the 10-yr US. Treasury Bond index. You can check the 10-yr. U.S. Treasury Bond index yourself by looking in the Wall St. Journal (name of publication).

Upon your acceptance, this agreement binds us to provide the mortgage loan and settlement services as promised, subject to final verification of your monthly income, the property value, your credit rating, and other information provided by you.

Signature of Authorized Agent _____ Date _____

Signature of Lender _____ Date _____

Your Signature _____ Date _____

Moderator's Script for Conditions 1 and 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?

[*say this if relevant*] If you are wondering who is behind the mirror, it is a representative from HUD [or OMB] making sure we ask the right questions. They are not observing you for how well you understand the forms. They want to see how we ask our questions and how you react to the forms. We can meet them in the end if that would make you more comfortable.

[*resume here*] 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.

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 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 new form that HUD has developed. 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. Now you are in the process of trying to arrange for a mortgage loan for $100,000. You are going to put $20,000 down on the house. 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.

Note taker: Try to record the sequence of pages they look at, and if possible, the portions of each page that they actually see and react to.

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.

First, 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.

1. The form mentions a loan originator. What does that term mean to you? [Pause for answer] Do you think banks who provide mortgages are loan originators? [Pause for answer] Do you think mortgage brokers are loan originators? [Pause for answer] Is there another term, other than loan originator, that would make more sense to you to cover all of the financial institutions who could supply a mortgage loan to you?
2. After looking at this form, do you think you would probably get several different GFEs from different loan originators before deciding on whom to get your loan from? [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. Does this loan have a prepayment penalty?
6. Does this loan have a balloon payment?
7. What does this form estimate that your total charges at settlement will be if you use this loan originator?

8. There is a charge listed as the adjusted origination charge. What does this charge mean to you? What do you think the charge is for?
9. On the second page under the section labeled, "Charges—All Other," what is the difference between the items listed under item 3 and those listed under item 5?
10. Please look at item 8 on page 2. If you were to close on March 5th 2003, rather than March 25th 2003, would the total amount listed for per diem interest charges change? [Pause for answer] Would it go up or down?
11. Do you have to pay for item 10 or not?
12. Which charges should remain exactly the same at settlement as they are on this form?
13. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
14. Which charges cannot change at settlement by more than 10 percent from the way they are on this form?
15. What do you understand from the table on 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?
16. The last table on page 3 presents four numbers concerning charges. How would you use these numbers when deciding on whether to accept the loan from this particular loan originator?

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.*]

17. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
18. 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?
19. Generally, what do you think the purpose of this form is? [Pause for answer] What makes you think that? [Pause for answer] Are there any other

purposes for this form? (Continue asking for additional purposes until the subject has no further comments.)

20. How would you personally use this form if you received it from a loan originator? [Pause for answer] What do you find to be the most useful information?

21. What do you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* do you like?)

22. What don't you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* don't you like?)

23. Do you have any suggestions for improving the form? [Prompt for the organization, layout, appearance, sequence, and content/message]

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 loan originator. 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 originators that have given you estimates of the costs you will have to pay when you buy the house.

24. 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 GMPA (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 Guaranteed Mortgage Package Agreement. [*Hand subject copy of GMPA*] 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 originator 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 GMPA (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 use this loan originator?
2. Which charges should remain exactly the same at settlement as they are on this form?
3. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
4. Which charges cannot change at settlement by more than 10 percent from the way they are on this form?

5. What reports can you receive a copy of based on this form?
6. Can you accept the terms of this GMPA without locking in the interest rate?
7. How long do you have to think over the terms of this GMPA? [Pause for answer] What if interest rates rise during that time? [Pause for answer] Is the interest rate guaranteed to you?

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 in the earlier discussion of the GMPA, do not ask them again.*]

8. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
9. 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?
10. Generally, what do you think the purpose of this form is? [Pause for answer] What makes you think that? [Pause for answer] Are there any other purposes for this form? (Continue asking for additional purposes until the subject has no further comments.)
11. How would you personally use this form if you received it from a loan originator? [Pause for answer] What do you find to be the most useful information?
12. What do you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* do you like?)
13. What don't you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* don't you like?)
14. Do you have any suggestions for improving the form? [Prompt for the organization, layout, appearance, sequence, and content/message]

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 was the lowest of the three that you have—one of the two GFEs or the GMPA?
2. Which loan originator 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 Conditions 3 and 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?

[*say this if relevant*] If you are wondering who is behind the mirror, it is a representative from HUD [or OMB] making sure we ask the right questions. They are not observing you for how well you understand the forms. They want to see how we ask our questions and how you react to the forms. We can meet them in the end if that would make you more comfortable.

[*resume here*] 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.

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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 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.

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 GMPA (15 minutes)

The purpose of this task is to observe and record how test subjects react to the GMPA, 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 an envelope that contains a new form that HUD has developed. It is called the Guaranteed Mortgage Package Agreement, or GMPA. 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. Now you are in the process of trying to arrange for a mortgage loan for $100,000. You are going to put $20,000 down on the house. 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 GMPA*] 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.

Note taker: Try to record the sequence of pages they look at, and if possible, the portions of each page that they actually see and react to.

Task 2: Questions about the GMPA (15 minutes)

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

First, 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.

1. The form mentions a loan originator. What does that term mean to you? [Pause for answer] Do you think banks who provide mortgages are loan originators? [Pause for answer] Do you think mortgage brokers are loan originators? [Pause for answer] Is there another term, other than loan originator, that would make more sense to you to cover all of the financial institutions who could supply a mortgage loan to you?
2. After looking at this form, do you think you would probably get several different GMPAs from different loan originators before deciding on who to get your loan from? [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. Does this loan have a prepayment penalty?
6. Does this loan have balloon payment?

7. What does this form estimate that your total charges at settlement will be if you use this loan originator?
8. Which charges should remain exactly the same at settlement as they are on this form?
9. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
10. Which charges cannot change at settlement by more than 10 percent from the way they are on this form?
11. What reports can you receive a copy of based on this form?
12. Can you accept the terms of this GMPA without locking in the interest rate?
13. How long do you have to think over the terms of this GMPA? [Pause for answer] What if interest rates rise during that time? [Pause for answer] Is the interest rate guaranteed to you?

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.*]

14. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
15. 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?
16. Generally, what do you think the purpose of this form is? [Pause for answer] What makes you think that? [Pause for answer] Are there any other purposes for this form? (Continue asking for additional purposes until the subject has no further comments.)
17. How would you personally use this form if you received it from a loan originator? [Pause for answer] What do you find to be the most useful information?

18. What do you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* do you like?)
19. What don't you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* don't you like?)
20. Do you have any suggestions for improving the form? [Prompt for the organization, layout, appearance, sequence, and content/message]

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 originator to provide a loan of $100,000. We know you have seen a similar form with the GMPA 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 use this loan originator?
2. There is a charge listed as the adjusted origination 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, "Charges—All Other," what is the difference between the items listed under item 3 and those listed under item 5?
4. Please look at item 8 on page 2. If you were to close on March 5th, 2003, rather than March 25th, 2003 would the total amount listed for per diem interest charges change? [Pause for answer] Would it go up or down?
5. Do you have to pay for item 10 or not?
6. Which charges should remain exactly the same at settlement as they are on this form?
7. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
8. Which charges cannot change at settlement by more than 10 percent from the way they are on this form?
9. What do you understand from the table on 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?
10. The last table on page 3 presents four numbers concerning charges. How would you use these numbers when deciding on whether to accept the loan from this particular loan originator?

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 in the earlier discussion of the GFE, do not ask them again.*]

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. Generally, what do you think the purpose of this form is? [Pause for answer] What makes you think that? [Pause for answer] Are there any other purposes for this form? (Continue asking for additional purposes until the subject has no further comments.)
14. How would you personally use this form if you received it from a loan originator? [Pause for answer] What do you find to be the most useful information?
15. What do you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* do you like?)
16. What don't you like about the form? (We anticipate that they will possibly bring up topics like layout, appearance, tone, content/message. Prompt: what about *[this topic]* don't you like?)
17. Do you have any suggestions for improving the form? [Prompt for the organization, layout, appearance, sequence, and content/message]

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 loan originator. 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 originators 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 was the lowest of the three that you have—one of the two GFEs or the GMPA?
2. Which loan originator 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*].

Appendix D:
Round 2 Forms and Script Used in Testing

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 Oak Financial

This loan is for property at this address 123 Fern Lane; Anywhere, USA

This GFE is valid for 30 days from this date January 20, 2003

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

Summary of Your Loan Terms for This Estimate

Your Loan Details

The interest rate, monthly payment, and annual percentage rate (APR) shown below can change until you lock in your interest rate.

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% 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	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$ 699.21	$ *The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $*
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

Your Settlement Costs

Your Adjusted Origination Charges *(see items 1 and 2 on page 2)*	$2,000.00
Your Charges for All Other Settlement Services *(see items 3 through 10 on page 2)*	$3,700.00
Total Estimated Settlement Charges	$ 5,700.00

GFE-1

Understanding Your Estimated Settlement Charges

Your Charges for Loan Origination

These charges are for the services we provide when we get and process this loan for you.

1. Our service charge	$4,500.00
2. Your charge or credit for the specific interest rate chosen ☑ For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay ☐ For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)	-$2,500.00
A *Your Adjusted Origination Charges*	$ 2,000.00

Your Charges for All Other Settlement Services

3. **Required third party services that we select** These charges are for services we require to complete your settlement. We will choose the providers of these services. *Service* / *Cost*		
Appraisal	$300.00	
Credit Report	25.00	
Tax Service	75.00	$400.00
4. **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.		$900.00
5. **Required third party 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. *Service* / *Cost*		
Survey	$200.00	
		$200.00
6. **Taxes and fees** This charge includes state and local taxes and fees.		$600.00
7. **Reserves or escrow** This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.		$697.25
8. **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 $ 20.55 per day for 5 days (if your closing date is 9/25/03).		$102.75
9. **Homeowner's insurance** This charge is for the insurance you must buy for the property to protect from a loss, such as fire.		$500.00
10. **Optional owner's title insurance** This charge is for additional insurance you can choose to buy to protect yourself from title defects.		$300.00
B *Your Charges for All Other Settlement Services*		$ 3,700.00

A + B = *Total Estimated Settlement Charges* $ 5,700.00

EC 1

Understanding Which Charges Can Change at Settlement

The charges that are listed in the previous section are all part of the total estimated amount that you will have to pay at settlement. Below, we list which charges can change at settlement.

Charges that *cannot increase* at settlement:

1) Our service charge
2) Your charge or credit for the specific interest rate chosen (after you lock in your interest rate)
3) Required third party services that we select
4) Title services and lender's title insurance (if we select them)
6) Taxes and fees

Charges that *cannot increase more than 10%* at settlement:

4) Title services and lender's title insurance (if you use providers referred by us)
5) Required third party services that you can shop for (if you use providers referred by us)
7) Reserves or escrow

Charges that *can change* at settlement:

4) Title services and lender's title insurance (if you choose them)
5) Required third party services that you can shop for (if you choose them)
8) Daily interest charges
9) Homeowner's insurance
10) Optional owner's title insurance

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

	The loan in this GFE	A loan with a lower interest rate	A loan with lower settlement costs
Your loan amount	$ 100,000.00	$ 100,000.00	$ 100,000.00
Your interest rate	7.5%	7.25%	7.75%
How much your monthly payment will be	$ 699.21	$ 682.18	$ 716.41
How much more or less in monthly payments from this GFE	No Change	You will pay $17.03 less every month	You will pay $17.20 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 $1,000.00	Your higher interest rate will lower your settlement costs by $1,000.00
How much your total estimated settlement charges will be	$ 5,700.00	$ 6,700.00	$ 4,700.00

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.

Understanding Some of the Charges on Page 2

We are required to show you a summary of some of the charges on page 2 so that you can better understand them.

Summary of Our Service Charge (item 1 on page 2)

Mortgage Broker Charges	$ 4,350.00
Lender Charges	$ 150.00
Our Service Charge	$ 4,500.00

Summary of Title Services and Lender's Title Insurance (item 4 on page 2)

Title Agent Charges	$ 675.00
Title Insurance Premiums	$ 225.00
Other Title Charges	$ —
Title Services and Lender's Title Insurance	$ 900.00

GFE 1

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 Pine Tree Bank

This loan is for property at this address 123 Fern Lane; Anywhere, USA

This GFE is valid for 30 days from this date January 29, 2003

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

Summary of Your Loan Terms for This Estimate

Your Loan Details

The interest rate, monthly payment, and annual percentage rate (APR) shown below can change until you lock in your interest rate.

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% 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	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$ 699.21	$ *The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $*
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

Your Settlement Costs

Your Adjusted Origination Charges *(see items 1 and 2 on page 2)*	$3,000.00
Your Charges for All Other Settlement Services *(see items 3 through 10 on page 2)*	$3,700.00
Total Estimated Settlement Charges	$ 6,700.00

FE-2

Understanding Your Estimated Settlement Charges

Your Charges for Loan Origination

These charges are for the services we provide when we get and process this loan for you.

1. Our service charge	$3,000.00
2. Your charge or credit for the specific interest rate chosen ☐ For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay ☐ For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)	—
A *Your Adjusted Origination Charges*	$3,000.00

Your Charges for All Other Settlement Services

3. Required third party services that we select These charges are for services we require to complete your settlement. We will choose the providers of these services.		
Service	*Cost*	
Appraisal	$300.00	
Credit Report	25.00	
Tax Service	75.00	$400.00
4. 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.		$900.00
5. Required third party 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.		
Service	*Cost*	
Survey	$200.00	
		$200.00
6. Taxes and fees This charge includes state and local taxes and fees.		$600.00
7. Reserves or escrow This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.		$697.25
8. 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 $ 20.55 per day for 5 days (if your closing date is 3/25/03).		$102.75
9. Homeowner's insurance This charge is for the insurance you must buy for the property to protect from a loss, such as fire.		$500.00
10. Optional owner's title insurance This charge is for additional insurance you can choose to buy to protect yourself from title defects.		$300.00
B *Your Charges for All Other Settlement Services*		$3,700.00

A + B = *Total Estimated Settlement Charges*	$6,700.00

FE-2

Understanding Which Charges Can Change at Settlement

The charges that are listed in the previous section are all part of the total estimated amount that you will have to pay at settlement. Below, we list which charges can change at settlement.

Charges that *cannot increase* at settlement:

1) Our service charge
2) Your charge or credit for the specific interest rate chosen (after you lock in your interest rate)
3) Required third party services that we select
4) Title services and lender's title insurance (if we select them)
6) Taxes and fees

Charges that *cannot increase more than 10%* at settlement:

4) Title services and lender's title insurance (if you use providers referred by us)
5) Required third party services that you can shop for (if you use providers referred by us)
7) Reserves or escrow

Charges that *can change* at settlement:

4) Title services and lender's title insurance (if you choose them)
5) Required third party services that you can shop for (if you choose them)
8) Daily interest rate charges
9) Homeowner's insurance
10) Optional owner's title insurance

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

	The loan in this GFE	A loan with a lower interest rate	A loan with lower settlement costs
Your loan amount	$ 100,000.00	$100,000.00	$100,000.00
Your interest rate	7.5%	7.25%	7.75%
How much your monthly payment will be	$ 699.21	$ 682.18	$ 716.41
How much more or less in monthly payments from this GFE	No Change	You will pay $17.03 less every month	You will pay $17.20 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 $1,000.00	Your higher interest rate will lower your settlement costs by $1,000.00
How much your total estimated settlement charges will be	$ 6,700.00	$ 7,700.00	$ 5,700.00

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.

Understanding Some of the Charges on Page 2

We are required to show you a summary of some of the charges on page 2 so that you can better understand them.

Summary of Our Service Charge (item 1 on page 2)

Mortgage Broker Charges	$ —
Lender Charges	$ 3,000.00
Our Service Charge	$ 3,000.00

Summary of Title Services and Lender's Title Insurance (item 4 on page 2)

Title Agent Charges	$ 675.00
Title Insurance Premiums	$ 225.00
Other Title Charges	$ —
Title Services and Lender's Title Insurance	$ 900.00

FF-2

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 that is guaranteed if you accept this offer and lock in by 2/19/03. Otherwise, the rate floats with an index 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 $ 3,500.00, the value of the property is $ 120,000.00 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 Maple Home Loans

This loan is for property at this address 123 Fern Lane; Anywhere, USA

This MPO is valid for 30 days from this date 1/20/03

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

Summary of Your Loan Terms for This MPO

Your Loan Details

The Loan Terms below are valid at the time you get this offer. However, the interest rate, monthly payment, and annual percentage rate (APR) can change until you lock in your interest rate.

Your loan amount will be:	$ 100,000.00	
Your loan is	☑ A Fixed Rate Loan	☐ An Adjustable Rate Loan
Your interest rate	7.5 %	% 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	30 years	years
Your monthly payment for principal, interest, and any mortgage insurance	$ 699.21	$ *The maximum your monthly payment for principal, interest, and any mortgage insurance could be is $*
Your APR	7.71 %	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☑ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☑ No	

Your Settlement Costs

Charge for Your Guaranteed Mortgage Package *(see item 1 on page 2)*	$4,600.00
Your Estimated Charges for Settlement Services Outside the Package *(see items 2-5 on page 2)*	$1,600.00
Total *Estimated Settlement Charges*	$6,200.00

Understanding Your Settlement Charges

Charge for Your Guaranteed Mortgage Package

1. **Your Guaranteed Mortgage Package** Your guaranteed mortgage package is one package price for most of the services that you will need to get your loan. This package includes the charges for the following services, if needed: **Your charges for loan origination** These charges are for the services we provide when we get and process this loan for you. **Third party 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.	
Your Guaranteed Mortgage Package Charges	$ 4,600.00

Your Estimated Charges for Settlement Services Outside the Package

2. **Reserves or escrow** This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.	$697.25
3. **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 $ 20.55 per day for 5 days (if your closing date is 3/25/23).	$102.75
4. **Homeowner's insurance** This charge is for the insurance you must buy for the property to protect from a loss such as fire.	$500.00
5. **Optional owner's title insurance** This charge is for insurance you can choose to buy to protect yourself from title defects.	$300.00
Your Estimated Charges for Settlement Services Outside the Package	$ 1,600.00
Total Estimated Settlement Charges	$ 6,200.00

Understanding Which Charges Can Change at Settlement

The charges that are listed in the previous section are all part of the total estimated amount that you will have to pay at settlement. Below, we list which charges can change at settlement.

Charges that *cannot increase* at settlement:

1) Your guaranteed mortgage package

Charges that *cannot increase more than 10%* at settlement:

2) Reserves or escrow

Charges that *can change* at settlement:

3) Daily interest rate charges
4) Homeowner's insurance
5) Optional owner's title insurance

Services That May Be in This Package

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

	Yes	No	Uncertain
Pest Inspection	☐	☐	☑
Lender's Title Insurance	☑	☐	☐
Property Appraisal	☑	☐	☐
Credit Report	☑	☐	☐

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	$ 100,000.00	$ 100,000.00	$ 100,000.00
Your interest rate	7.5 %	7.25 %	7.75 %
How much your monthly payment will be	$ 699.21	$ 682.18	$ 716.41
How much more or less in monthly payments from this MPO	No Change	You will pay $ 17.03 less every month	You will pay $ 17.20 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 $ 1000.00	Your higher interest rate will lower your settlement costs by $ 1,000.00
How much your total estimated settlement charges will be	$ 6,200.00	$ 7,200.00	$ 5,200.00

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? First, you will need to pay a fee of $ 325.00, which will be applied towards your settlement charges. Then, you will need to decide whether or not you want to lock in an interest rate now or wait to lock it in later. Here are your options:

- ☐ You can accept the offer now by signing below and lock in the interest rate we've offered.
- ☐ You can accept the offer now by signing below, but wait to lock in your rate. If you do this, you must lock in your interest rate within 5 days of your settlement.*

What if you are not sure you want to accept this offer? You can wait to accept this offer; it will be valid for 30 days from this date 1/20/03. If you choose to accept the offer, you must lock in your interest rate within 5 days of your 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. Once we verify this information, then we will provide the mortgage loan and settlement services exactly as we've outlined in this offer.

**Until you lock, your interest rate will change with the 10-yr. U.S. Treasury Bond index. We guarantee that your interest rate cannot be more than 2.5 percentage points above this index. If you want to check this index, you can do so by looking at the Wall St. Journal.*

Bill Reid — Our Signature — Date: 1/20/03

Your Signature — Date

A. **Settlement Statement**

U.S. Department of Housing and Urban Development

OMB Approval No. 2502-0265

B. Type of Loan

1. [ ] FHA 2. [ ] FmHA 3. [✓] Conv. Unins. 4. [ ] VA 5. [ ] Conv. Ins.

6. File Number:	7. Loan Number:	8. Mortgage Insurance Case Number:
123456	654-23	

C. Note: This form is furnished to give you a statement of actual settlement costs. Amounts paid to and by the settlement agent are shown. Items marked "(p.o.c.)" were paid outside the closing; they are shown here for informational purposes and are not included in the totals.

D. Name & Address of Borrower:	E. Name & Address of Seller:	F. Name & Address of Lender:
Susan Manville 456 Flowerwood Dr. Anywhere, USA	Brian Humphrey 123 Fern Lane Anywhere, USA	Oak Financial

G. Property Location:	H. Settlement Agent:	
123 Fern Lane Anywhere, USA	Sara Netzer	
	Place of Settlement:	I. Settlement Date:
	Protitle 321 Main Street	3/25/03

J. Summary of Borrower's Transaction		K. Summary of Seller's Transaction	
100. Gross Amount Due From Borrower		**400. Gross Amount Due To Seller**	
101. Contract sales price	$120,000.00	401. Contract sales price	
102. Personal property		402. Personal property	
103. Settlement charges to borrower (line 1400)		403.	
104.		404.	
105.		405.	
Adjustments for items paid by seller in advance		**Adjustments for items paid by seller in advance**	
106. City/town taxes to		406. City/town taxes to	
107. County taxes to		407. County taxes to	
108. Assessments to		408. Assessments to	
109.		409.	
110.		410.	
111.		411.	
112.		412.	
120. Gross Amount Due From Borrower	$128,300.00	**420. Gross Amount Due To Seller**	
200. Amounts Paid By Or In Behalf Of Borrower		**500. Reductions In Amount Due To Seller**	
201. Deposit or earnest money	$3,000.00	501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)	$100,000.00	502. Settlement charges to seller (line 1400)	$7,200.00
203. Existing loan(s) taken subject to		503. Existing loan(s) taken subject to	
204.		504. Payoff of first mortgage loan	
205.		505. Payoff of second mortgage loan	
206. Lender payment on	$2,500.00	506.	
207. behalf of borrower		507.	
208.		508.	
209.		509.	
Adjustments for items unpaid by seller		**Adjustments for items unpaid by seller**	
210. City/town taxes to		510. City/town taxes to	
211. County taxes to		511. County taxes to	
212. Assessments to		512. Assessments to	
213.		513.	
214.		514.	
215.		515.	
216.		516.	
217.		517.	
218.		518.	
219.		519.	
220. Total Paid By/For Borrower	$105,500.00	**520. Total Reduction Amount Due Seller**	$7,200.00
300. Cash At Settlement From/To Borrower		**600. Cash At Settlement To/From Seller**	
301. Gross Amount due from borrower (line 120)	$128,300.00	601. Gross amount due to seller (line 420)	$120,000.00
302. Less amounts paid by/for borrower (line 220)	(105,500)	602. Less reductions in amt. due seller (line 520)	(7,200.00)
303. Cash [✓] From [ ] To Borrower	$22,800.00	603. Cash [✓] To [ ] From Seller	$112,800.00

Section 5 of the Real Estate Settlement Procedures Act (RESPA) requires the following: • HUD must develop a Special Information Booklet to help persons borrowing money to finance the purchase of residential real estate to better understand the nature and costs of real estate settlement services; • Each lender must provide the booklet to all applicants from whom it receives or for whom it prepares a written application to borrow money to finance the purchase of residential real estate; • Lenders must prepare and distribute with the Booklet a Good Faith Estimate of the settlement costs that the borrower is likely to incur in connection with the settlement. These disclosures are manadatory.

Section 4(a) of RESPA mandates that HUD develop and prescribe this standard form to be used at the time of loan settlement to provide full disclosure of all charges imposed upon the borrower and seller. These are third party disclosures that are designed to provide the borrower with pertinent information during the settlement process in order to be a better shopper.

The Public Reporting Burden for this collection of information is estimated to average one hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

This agency may not collect this information, and you are not required to complete this form, unless it displays a currently valid OMB control number.

The information requested does not lend itself to confidentiality.

L. Settlement Charges

		Paid From Borrowers Funds at Settlement	Paid From Seller's Funds at Settlement
700. Total Sales/Broker's Commission based on price $ 120,000.00 @ 6 % = $7,200.00			
Division of Commission (line 700) as follows:			
701. $ 3,600.00 to Best Homes Realty			
702. $ 3,600.00 to Reid Realty			
703. Commission paid at Settlement			$7,200.00
704.			
800. Items Payable In Connection With Loan			
801. Loan Origination Fee %		$2,000.00	
802. Loan Discount %			
803. Appraisal Fee to		$300.00	
804. Credit Report to		25.00	
805. Lender's Inspection Fee			
806. Mortgage Insurance Application Fee to			
807. Assumption Fee			
808. Tax Service		$75.00	
809. Underwriting Fee		$1,000.00	
810. Loan Processing Fee		$800.00	
811. Application Fee		$200.00	
900. Items Required By Lender To Be Paid In Advance			
901. Interest from 3/26/03 to 3/31/03 @$ 20.55 /day		$102.75	
902. Mortgage Insurance Premium for months to			
903. Hazard Insurance Premium for years to		$500.00	
904. years to			
905.			
1000. Reserves Deposited With Lender			
1001. Hazard insurance 2 months @$ 40.00 per month		$80.00	
1002. Mortgage insurance months @$ per month			
1003. City property taxes months @$ per month			
1004. County property taxes 3 months @$ 205.75 per month		$617.25	
1005. Annual assessments months @$ per month			
1006. months @$ per month			
1007. months @$ per month			
1008. months @$ per month			
1100. Title Charges			
1101. Settlement or closing fee to Protitle		$400.00	
1102. Abstract or title search to Protitle		175.00	
1103. Title examination to Paramount Inc.		175.00	
1104. Title insurance binder to			
1105. Document preparation to			
1106. Notary fees to			
1107. Attorney's fees to			
(includes above items numbers:)			
1108. Title insurance to		$450.00	
(includes above items numbers:)			
1109. Lender's coverage $ 150.00			
1110. Owner's coverage $ 300.00			
1111.			
1112.			
1113.			
1200. Government Recording and Transfer Charges			
1201. Recording fees: Deed $ 50.00 ; Mortgage $ 50.00 ; Releases $		$100.00	
1202. City/county tax/stamps: Deed $ 250.00; Mortgage $		250.00	
1203. State tax/stamps: Deed $; Mortgage $ 300.00		300.00	
1204.			
1205.			
1300. Additional Settlement Charges			
1301. Survey to		$200.00	
1302. Pest inspection to		50.00	
1303.			
1304.			
1305.			
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		$8,300.00	$7,200.00

Worksheet for Comparing Your Estimated and Actual Settlement Charges

What is the purpose of this worksheet?
This worksheet provides a way to compare the estimate of settlement charges that we gave you as a Good Faith Estimate (GFE) to the actual charges listed on your HUD-I Settlement Statement. The table below can help you check to see if these costs are what you expected.

How should you use the table?
1. Enter the amounts shown on your GFE in the column on the left side of the page in the amount column.
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 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.
3. Compare the charges in each category. For any charges that vary more than expected or for charges that you cannot identify, ask us, 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 GFE and the HUD-I from no change at all to very large changes.

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 800-899 that are charged by the lender rather than a third party. _____ _____	
2. Your charge or credit for the specific interest rate chosen (after you lock in your interest rate) If the amount on your GFE is negative		This will appear on the first page of the HUD-1 in the 200 series, labeled as the "lender payment on behalf of the borrower." Enter this as a negative amount.	
If the amount on your GFE is positive		802 Loan Discount. Enter this as a positive amount.	
3. Third party services we select (Find the charges on your GFE for third party services we selected and enter them here) _____ _____ _____		803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges _____ _____ _____	
4. Title services and lender's title insurance (Include the services that we selected here)		1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the amount listed for the owner's coverage before entering it. _____ _____	
6. Taxes and fees		1200-1299 Government Recording and Transfer Charges _____ _____ _____	

Charges That Cannot Increase More Than 10% at Settlement

The charges listed below may have change from your GFE to your HUD-1 settlement statement, but they cannot increase by more than 10 %.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Include the services where you used the providers referred by us)		1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the amount listed for the owner's coverage before entering it. _____ _____ _____ _____	
5. Required third party services you can shop for (Include the services where you used the providers referred by us) _____ _____ _____		803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges _____ _____	
7. Reserves or escrow		1000-1099 Reserves Deposited with the Lender _____ _____ _____	

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 will have to pay more in daily interest charges.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Include the services you selected here)		1100-1199 Title Charges If you include a charge for 1108-title insurance here, subtract the amount listed for the owner's coverage before entering it. _____ _____	
5. Required third party services you can shop for (Find the charges listed on your GFE that you selected yourself and enter them here) _____ _____ _____		803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges _____ _____ _____	
8. Daily interest charges		901 Interest from	
9. Homeowner's insurance		903 Hazard insurance	
10.Optional owner's title insurance		1110 Owner's coverage	
Total Estimated Settlement Charges		**Total Settlement Charges**	

Worksheet for Comparing Your Estimated and Actual Settlement Charges

What is the purpose of this worksheet?

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

How should you use the table?

1. Enter the amounts shown on your GFE in the column on the left side of the page in the amount column.
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 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.
3. Compare the charges in each category. For any charges that vary more than expected or for charges that you cannot identify, ask us, 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 GFE and the HUD-I from no change at all to very large changes.

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	$4,500.00	801 Loan origination fee Also include any other fees listed from 800-899 that are charged by the lender rather than a third party.	
2. Your charge or credit for the specific interest rate chosen (after you lock in your interest rate) If the amount on your GFE is negative	-$2,500.00	This will appear on the first page of the HUD-1 in the 200 series, labeled as the "lender payment on behalf of the borrower." Enter this as a negative amount.	
If the amount on your GFE is positive		802 Loan Discount. Enter this as a positive amount.	
3. Third party services we select (Find the charges on your GFE for third party services we selected and enter them here) Appraisal $300.00 Credit Report 25.00 Tax Service 75.00	$400.00	803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges	
4. Title services and lender's title insurance (Include the services that we selected here)		1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the amount listed for the owner's coverage before entering it.	
6. Taxes and fees	$600.00	1200-1299 Government Recording and Transfer Charges	

Charges That Cannot Increase More Than 10% at Settlement

The charges listed below may have change from your GFE to your HUD-1 settlement statement, but they cannot increase by more than 10 %.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Include the services where you used the providers referred by us)	$900.00	1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the amount listed for the owner's coverage before entering it.	
5. Required third party services you can shop for (Include the services where you used the providers referred by us)	—	803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges	
7. Reserves or escrow	$697.25	1000-1099 Reserves Deposited with the Lender	

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 will have to pay more in daily interest charges.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Include the services you selected here)	—	1100-1199 Title Charges If you include a charge for 1108-title insurance here, subtract the amount listed for the owner's coverage before entering it.	
5. Required third party services you can shop for (Find the charges listed on your GFE that you selected yourself and enter them here) Survey $200.00	$200.00	803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges	
8. Daily interest charges	$102.75	901 Interest from	
9. Homeowner's insurance	$500.00	903 Hazard insurance	
10.Optional owner's title insurance	$300.00	1110 Owner's coverage	
Total Estimated Settlement Charges	$5,700.00	**Total Settlement Charges**	

Worksheet for Comparing Your Estimated and Actual Settlement Charges

What is the purpose of this worksheet?

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

How should you use the table?

1. Enter the amounts shown on your GFE in the column on the left side of the page in the amount column.
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 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.
3. Compare the charges in each category. For any charges that vary more than expected or for charges that you cannot identify, ask us, 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 GFE and the HUD-I from no change at all to very large changes.

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	$4,500.00	801 Loan origination fee Also include any other fees listed from 800-899 that are charged by the lender rather than a third party. Underwriting Fee $1000.00 Loan Processing Fee $800.00 Application Fee $700.00	$2,000.00 $2,500.00
2. Your charge or credit for the specific interest rate chosen (after you lock in your interest rate) If the amount on your GFE is negative If the amount on your GFE is positive	-$2,500	This will appear on the first page of the HUD-1 in the 200 series, labeled as the "lender payment on behalf of the borrower." Enter this as a negative amount. 802 Loan Discount. Enter this as a positive amount.	-$2,500.00
3. Third party services we select (Find the charges on your GFE for third party services we selected and enter them here) Appraisal $300.00 Credit Report $25.00 Tax Service $75.00	$400.00	803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges Appraisal $300.00 Credit Report $25.00 Tax Service $75.00 Pest Inspection $50.00	$450.00
4. Title services and lender's title insurance (Include the services that we selected here)	—	1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the amount listed for the owner's coverage before entering it.	—
6. Taxes and fees	$600.00	1200-1299 Government Recording and Transfer Charges Recording Fees $100.00 City/county Tax $250.00 State Stamp $300.00	$650.00

Charges That Cannot Increase More Than 10% at Settlement

The charges listed below may have change from your GFE to your HUD-1 settlement statement, but they cannot increase by more than 10 %.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Include the services where you used the providers referred by us)	$900.00	1100-1199 Title Charges If you include a charge for 1108-Title insurance here, subtract the amount listed for the owner's coverage before entering it. Pro Title $400.00 Pro Title $175.00 Paramount $175.00 1108 - $450.00 - $300.00 = $150.00	$900.00
5. Required third party services you can shop for (Include the services where you used the providers referred by us)	—	803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges	—
7. Reserves or escrow	$697.25	1000-1099 Reserves Deposited with the Lender Hazard Insurance $80.00 County Property Tax $617.25	$697.25

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 will have to pay more in daily interest charges.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Include the services you selected here)	—	1100-1199 Title Charges If you include a charge for 1108-title insurance here, subtract the amount listed for the owner's coverage before entering it.	—
5. Required third party services you can shop for (Find the charges listed on your GFE that you selected yourself and enter them here) Survey $200.00	$200.00	803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges Survey $200.00	$200.00
8. Daily interest charges	$102.75	901 Interest from	102.75
9. Homeowner's insurance	$500.00	903 Hazard insurance	$500.00
10.Optional owner's title insurance	$300.00	1110 Owner's coverage	$300.00
Total Estimated Settlement Charges	$5,700.00	**Total Settlement Charges**	$5,800.00

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.

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 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 new form that HUD has developed. 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.

First, 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.

1. 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?
2. 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?
3. What will your monthly payment be for principal, interest, and mortgage insurance?
4. Does this loan have a prepayment penalty?
5. Does this loan have a balloon payment?
6. What does this form estimate that your total charges at settlement will be if you choose this loan offer?
7. There is a charge listed as "your adjusted origination charge." What does this charge mean to you? What do you think the charge is for?
8. On the second page under the section labeled, "Your Charges for All Other Settlement Services," what is the difference between the items listed under item 3 and those listed under item 5?

9. Please look at item 8 on page 2. If you were to close on March 5th 2003, rather than March 25th 2003, would the total amount listed for daily interest charges change? [Pause for answer] Would it go up or down?
10. Do you have to pay for item 10 or not?
11. Which charges cannot increase at settlement from the way they are on this form?
12. Which charges cannot increase at settlement by more than 10 percent from the way they are on this form?
13. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
14. What do you understand from the table on 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?
15. The last section on the bottom of page 3 has some additional breakdowns of charges from page 2. What do you understand from this section?

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.

16. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
17. 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?
18. What do you find to be the most useful information on this form?
19. What do you like about the form?
20. What don't you like about the form?
21. 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.

22. 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. Which charges cannot increase at settlement from the way they are on this form?
4. Which charges cannot increase at settlement by more than 10 percent from the way they are on this form?
5. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?
6. What services will be included in your package?
7. Can you accept the terms of this MPO without locking in the interest rate?
8. How long do you have to think over whether you want to accept the terms of this MPO?
9. If you do not lock in the interest rate, how will your interest rate be determined?

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.

10. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?
11. 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?
12. What do you find to be the most useful information on this form?

13. What do you like about the form?
14. What don't you like about the form?
15. 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.

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 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 an envelope that contains 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.

First, 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.

1. 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?
2. 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?
3. What will your monthly payment be for principal, interest, and mortgage insurance?
4. Does this loan have a prepayment penalty?
5. Does this loan have balloon payment?
6. What does this form estimate that your total charges at settlement will be if you accept this loan offer?
7. What do you think the mortgage package includes?
8. Which charges cannot increase at settlement from the way they are on this form?
9. Which charges cannot increase at settlement by more than 10 percent from the way they are on this form?
10. Which charges might vary a lot (more than 10%) by the time you settle from the way they are on this form?

11. What services will be included in your package?

12. Can you accept the terms of this MPO without locking in the interest rate?

13. How long do you have to think over whether you want to accept the terms of this MPO?

14. If you do not lock in the interest rate, how will your interest rate be determined?

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.*]

15. How comfortable or uncomfortable do you feel with this form? [Pause for answer] Why?

16. 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?

17. What do you find to be the most useful information?

18. What do you like about the form?

19. What don't you like about the form?

20. 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 originator 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 "your adjusted origination 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 Charges for All Other Settlement Services," what is the difference between the items listed under item 3 and those listed under item 5?
4. Please look at item 8 on page 2. If you were to close on March 5th, 2003, rather than March 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 10 or not?

6. Which charges cannot increase at settlement from the way they are on this form?
7. Which charges 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. What do you understand from the table on 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?
10. The last section at the bottom of page 3 has some additional breakdowns of charges from page 2. What do you understand from this section?

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 in the earlier discussion of the GFE, do not ask them again.*]

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?

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.

17. 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 GMPA?
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.

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 (10 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 new forms 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.

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 this 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 comparison sheet*]

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. If you supply them, you can either use the recommendations from Oak Financial or you can find your own title company. In this case you decided to use the recommendations from Oak Financial, but to hire them yourself. The costs for the title charges were the same as on the GFE.
2. For the survey listed under item 5 of the GFE, you found your own provider. The survey cost for your provider was the same price--$200.

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 (10 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*].

Appendix E: Final Forms

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 _____

This loan is for property at this address _____

This GFE is valid for 30 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	☐ A Fixed Rate Loan	☐ 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 APR	%	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☐ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☐ No	

The interest rate, monthly payment, and annual percentage rate (APR) shown above can change until you lock in your interest rate.

Your Settlement Costs

Your Adjusted Origination Charges *(see items 1 and 2 on page 2)*	
Your Charges for All Other Settlement Services *(see items 3 through 10 on page 2)*	
Total Estimated Settlement Charges	$

Understanding Your Estimated Settlement Charges

Your Charges for Loan Origination

These charges are for the services we provide when we get and process this loan for you.

1. Our service charge	
2. Your charge or credit for the specific interest rate chosen ☐ **For a higher interest rate loan**—the payment by the lender on your behalf that reduces the up-front charge you pay ☐ **For a lower interest rate loan**—the additional up-front charge you pay the lender (discount points)	
A *Your Adjusted Origination Charges*	$

Your Charges for All Other Settlement Services

3. Required services that we select These charges are for services we require to complete your settlement. We will choose the providers of these services. *Service* — *Cost* ____ — ____ ____ — ____ ____ — ____	
4. 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.	
5. 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. *Service* — *Cost* ____ — ____ ____ — ____ ____ — ____	
6. Taxes and fees This charge includes state and local taxes and fees.	
7. Reserves or escrow This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.	
8. 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 ____/____/____).	
9. Homeowner's insurance This charge is for the insurance you must buy for the property to protect from a loss, such as fire.	
10. Optional owner's title insurance This charge is for additional insurance you can choose to buy to protect yourself from title defects.	
B *Your Charges for All Other Settlement Services*	$

A + B = Total Estimated Settlement Charges	$

Understanding Some of the Charges on Page 2

We are required to show you a summary of some of the charges on page 2 so that you can better understand them. These are not additional or new charges.

Summary of Our Service Charge (item 1 on page 2)

Mortgage Broker Charges	$
Lender Charges	$
Our Service Charge	**$**

Summary of Title Services and Lender's Title Insurance (item 4 on page 2)

Title Agent Charges	$
Title Insurance Premiums	$
Other Title Charges	$
Title Services and Lender's Title Insurance	**$**

Understanding Which Charges Can Change at Settlement

The charges listed on page 2 are all part of the total estimated amount that you will have to pay at settlement. 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.

Charges that *cannot increase* at settlement:

1. Our service charge
2. Your charge or credit for the specific interest rate chosen (after you lock in your interest rate)
3. Required services that we select
4. Title services and lender's title insurance (if we select them)
6. Taxes and fees

Charges that *cannot increase more than 10%* at settlement:

4. Title services and lender's title insurance (if you use providers referred by us)
5. Required services that you can shop for (if you use providers referred by us)
7. Reserves or escrow

Charges that *can change* at settlement:

4. Title services and lender's title insurance (if you choose them)
5. Required services that you can shop for (if you choose them)
8. Daily interest rate charges
9. Homeowner's insurance
10. Optional owner's title insurance

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

	The loan in this GFE	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 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 that is guaranteed if you accept this offer and lock in by ____/____/____. Otherwise, the rate floats with an index 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 _____

This loan is for property at this address _____

This MPO is valid for 30 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	☐ A Fixed Rate Loan	☐ 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 APR	%	%
Does your loan have a prepayment penalty?	☐ Yes, your maximum prepayment penalty is $ ☐ No	
Does your loan have a balloon payment?	☐ Yes, you have a balloon payment of $ due in years. ☐ No	

The interest rate, monthly payment, and annual percentage rate (APR) shown above can change until you lock in your interest rate.

Your Settlement Costs

Charge for Your Guaranteed Mortgage Package *(see item 1 on page 2)*	
Your Estimated Charges for Settlement Services Outside the Package *(see items 2-5 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. These charges cannot change before settlement. This package includes the charges for the following services, if needed:

Your charges for loan origination
These charges are for the services we provide when we get and 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.

Your Guaranteed Mortgage Package Charges	$

Your Estimated Charges for Settlement Services Outside the Package

2. Reserves or escrow This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.	
3. 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 ____/____/____).	
4. Homeowner's insurance This charge is for the insurance you must buy for the property to protect from a loss such as fire.	
5. Optional owner's title insurance This charge is for insurance you can choose to buy to protect yourself from title defects.	
Your Estimated Charges for Settlement Services Outside the Package	$

Total Estimated Settlement Charges	$

Understanding Which Charges Can Change at Settlement

The charges that are listed in the previous section are all part of the total estimated amount that you will have to pay at settlement. Below, we list which charges can change at settlement.

Charges that *cannot increase* at settlement:

1. Your guaranteed mortgage package

Charges that *cannot increase more than 10%* at settlement:

2. Reserves or escrow

Charges that *can change* at settlement:

3. Daily interest rate charges
4. Homeowner's insurance
5. Optional owner's title insurance

Services That May Be in This Package

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

	Yes	No	Uncertain
Pest Inspection	☐	☐	☐
Lender's Title Insurance	☐	☐	☐
Property Appraisal	☐	☐	☐
Credit Report	☐	☐	☐

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?

1. You will need to pay a fee of $ which will be applied towards your settlement charges.
2. 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. Once we verify this information, then 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? You can wait to accept this offer; it will be valid until this date _____/_____/_____. If you choose to accept the offer, you must lock in your interest rate at least days before your settlement.*

**Until you lock, your interest rate will change with the index. We guarantee that your interest rate cannot be more than percentage points above this index. If you want to check this index, you can do so by looking at the .*

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-I 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 items from the GFE are entered in Table 2, Table 3, or Table 4 depending upon whether you arranged for these services or whether the lender or broker who is providing the loan arranged for them. 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?
4. Title services and lender's title insurance	☐ The lender or broker ☞		Enter in Table 2
	☐ The lender or broker gave you a reference, but you made the arrangements with the provider ☞		Enter in Table 3
	☐ You found the provider and made your own arrangements ☞		Enter in Table 4
5. Required services that you can shop for			
First service listed _____	☐ The lender or broker ☞		Enter in Table 2
	☐ The lender or broker gave you a reference, but you made the arrangements with the provider ☞		Enter in Table 3
	☐ You found the provider and made your own arrangements ☞		Enter in Table 4
Second service listed _____	☐ The lender or broker ☞		Enter in Table 2
	☐ The lender or broker gave you a reference, but you made the arrangements with the provider ☞		Enter in Table 3
	☐ You found the provider and made your own arrangements ☞		Enter in Table 4
Third service listed _____	☐ The lender or broker ☞		Enter in Table 2
	☐ The lender or broker gave you a reference, but you made the arrangements with the provider ☞		Enter in Table 3
	☐ You found the provider and made your own arrangements ☞		Enter in Table 4
Fourth service listed _____	☐ The lender or broker ☞		Enter in Table 2
	☐ The lender or broker gave you a reference, but you made the arrangements with the provider ☞		Enter in Table 3
	☐ You found the provider and made your own arrangements ☞		Enter in Table 4

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-I from no change at all to very large changes.

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 3 (Required services that we select), find the appraisal figure on the HUD-1 and enter it across from the GFE number.
- Almost 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.

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. _____ _____ _____	
2. Your charge or credit for the specific interest rate chosen (after you lock in your interest rate) If the amount on your GFE is negative		This credit will appear on the first page of the HUD-1 in the 200 series, labeled as the "lender payment on behalf of the borrower." Enter this as a negative amount.	
If the amount on your GFE is positive		802 Loan Discount. Enter this as a positive amount.	
3. Required services that we select _____ _____ _____ _____		803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges _____ _____	
4. Title services and lender's title insurance (Refer to Table 1. Include the services that the lender or broker selected here)		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. _____ _____	
6. Taxes and fees		1200-1299 Government Recording and Transfer Charges _____ _____	
A | Subtotal from GFE		**D | Subtotal from HUD-1**	

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

The charges listed below may have changed from your GFE to your HUD-1 settlement statement, but they cannot increase by more than 10 %.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Refer to Table 1. Include the services where you used the providers referred by the lender or broker but made the arrangements yourself.)		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. _____ _____ _____ _____	
5. Required services you can shop for (Include the services where you used the providers referred by the lender or broker but made the arrangements yourself.) _____ _____ _____ _____ _____ _____ _____		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 _____ _____ _____ _____ _____	
7. Reserves or escrow		1000-1099 Reserves Deposited with the Lender _____ _____ _____ _____ _____	
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 will have to pay more in daily interest charges.

Charges on Your GFE		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
4. Title services and lender's title insurance (Refer to Table 1. Include the services where you found the provider and made your own arrangements)		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. _____ _____ _____ _____	
5. Required services you can shop for (Refer to Table 1. Include the services where you found the provider and made your own arrangements) _____ _____ _____ _____ _____ _____ _____		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 _____ _____ _____ _____	
8. Daily interest charges (Use the total charges listed on your GFE)		901 Interest from	
9. Homeowner's insurance		903 Hazard insurance	
10.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)**	

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-I Settlement Statement. The tables below 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-I 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.
- Almost 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)

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 Mortgage Package		800-899 Items Payable in Connection With Loan _____ _____ _____	
		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. _____ _____ _____	
		1200-1299 Government Recording and Transfer Charges _____ _____ _____	
		1300-1399 Additional Settlement Charges _____ _____ _____	
A Subtotal from MPO		**D Subtotal from HUD-1**	

Charges That Cannot Increase More than 10% at Settlement

The charges listed below may have changed from your MPO to your HUD-1 settlement statement, but they cannot increase by more than 10 %.

Charges on Your MPO		Charges on Your HUD-1 Settlement Statement	
Description	**Amount**	**Description**	**Amount**
2. Reserves or escrow		1000-1099 Reserves Deposited with the Lender	
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. Daily interest charges (Use the total charges listed on your MPO)		901 Interest from	
4. Homeowner's insurance		903 Hazard insurance	
5. 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)	