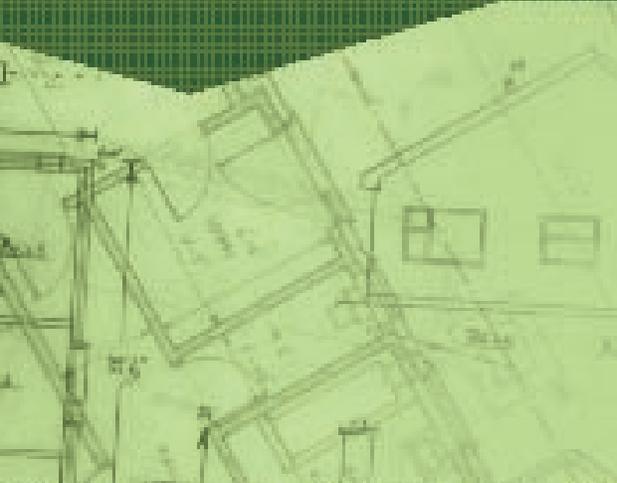


summary

# REPORT

A detailed architectural drawing of a house, showing the roofline, windows, and structural elements, rendered in a light green color against a dark green background.

Consumer Testing of the  
Good Faith Estimate Form (GFE)



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



February 2008

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Summary

# REPORT

Consumer Testing of the  
**Good Faith Estimate Form (GFE)**

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

Prepared by:  
Kleimann Communications Group, Inc.  
Washington, DC

February 2008

The contents of this report are the views of the contractor and do not necessarily reflect the views or policies of the U.S. Department of Housing and Urban Development or the U.S. Government.

# Executive Summary

## Summary of Testing

From 2002–2007, Kleimann Communication Group, Inc. (KCG) has conducted six rounds of qualitative testing on various consumer mortgage forms. The following report summarizes each round of testing. Round 1 of consumer testing took place from December 9–13, 2002, and involved 45 participants in three geographically diverse cities: Baltimore, Maryland; Birmingham, Alabama; and Chicago, Illinois. Testing in Round 1 involved collecting qualitative data to help inform the design of the Good Faith Estimate form (GFE) and the Guaranteed Mortgage Package Agreement form (GMPA). Round 1 of testing involved 45 demographically diverse participants.

KCG used data collected during Round 1 to improve the GFE and the Mortgage Package Offer form (MPO, formerly referred to as the GMPA) for Round 2 of testing. In addition to the GFE and MPO, KCG tested Crosswalk forms that would help consumers compare estimated and actual costs at settlement between the HUD-1 settlement form (HUD-1) and the GFE and MPO. Round 2 testing took place in 2003 over two weeks (January 20–24 and January 30–February 4) in three geographically diverse cities: Austin, Texas; San Diego, California; and Portland, Oregon. Round 2 testing also involved 45 participants. Testing in Round 2 closely mirrored Round 1.

Round 3 testing took place from July 7–11, 2003, and involved 60 demographically diverse participants in Los Angeles, California; Wilmington, Delaware; Minneapolis, Minnesota; and Tulsa, Oklahoma. In Round 3, KCG tested the GFE, the MPO, and the GFE and MPO Crosswalks.

Round 4 of testing involved only the GFE and consisted of collecting quantitative data. KCG conducted this round of testing in December 2003 and included 600 demographically diverse participants in five cities: Atlanta, Georgia; Boston, Massachusetts; Denver, Colorado; Seattle, Washington; and Tulsa, Oklahoma. Round 4 testing mirrored a testing project conducted by the Federal Trade Commission (FTC) and focused on whether a bias existed against mortgage brokers as a result of full disclosure of yield spread premium (YSP) information.

Conducted in February 2004, Round 5 of GFE testing closely mirrored Round 4. Again, KCG tested 600 diverse participants in the same five cities used for Round 4 testing. The major focus of this round of testing was to study more in depth whether the disclosure of YSP information unfairly biased consumers against mortgage brokers.

Round 6 testing took place in November 2007 and involved 60 demographically diverse participants in Test 1, and 20 participants in Test 2. KCG conducted Round 6, Test 1, testing in: Atlanta, Georgia; Boston, Massachusetts; and Denver, Colorado. Round 6, Test 2, testing took place in Cincinnati, Ohio and Phoenix, Arizona. In this round, KCG tested two versions of the GFE: the 2004 version of the GFE (with minor revisions) as well as a two-page GFE developed by HUD prior to Round 6 testing. Furthermore, in Round 6, KCG tested an extract of the HUD-1 Settlement form and Settlement Scripts.

# Executive Summary

## Goals of Testing

HUD's main goals in revising and testing these forms include the following:

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

For Round 4 and Round 5 of testing, the major goal was to study whether the disclosure of YSP information unfairly biased consumers against mortgage brokers.

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

## Methodology

### Qualitative Testing

For Rounds 1, 2, 3, and 6 of consumer testing, KCG developed a comprehensive qualitative testing methodology that addressed key issues and questions about the GFE, GMPA/MPO, Crosswalk, HUD-1 forms as well as Settlement Scripts (developed and used only in Round 6 of testing). Interviews with participants usually lasted for 60 to 90 minutes with a 10-minute break, and the interviews had two parts: one part unstructured and one structured.

In the unstructured portion of the interviews, KCG asked participants to think aloud as they worked with each form for the first time. This unstructured and unprompted portion of the interview allowed staff to capture users' initial reactions, including

- ▼ areas of the forms that participants respond well to,
- ▼ areas of the forms that participants do not understand, and
- ▼ areas of the forms that participants question.

Testing staff captured this valuable information before questioning participants about different elements of the forms, ensuring that the interviewer did not lead participants to discuss information they would not have noticed on their own.

In the structured portion of the interviews, staff asked targeted questions to determine how well participants understood certain areas of the forms and how HUD might improve the forms. KCG based the questions used in the structured interview on the key research questions identified as HUD goals.

# Executive Summary

## Quantitative Testing

Rounds 4 and 5 of testing involved collecting quantitative data with 1,200 consumers in five geographically diverse cities across the United States. Both Aspen Systems and KCG provided staff to fill key positions within the testing team, with Aspen developing the databases to manage test data as well as providing staff for data entry and reporting. At each testing site, an Aspen employee served as test moderator while an employee from KCG observed the testing sessions. At the end of each day of testing, participant answer sheets were sent to Aspen Systems for data entry. After entering responses into the database, Aspen staff performed quality checks of the data and created unique coding systems for each comparison. After coding responses for each comparison, the Aspen/KCG team compiled the results by using a MS Access® database. Once input, the Aspen/KCG team conducted quality checks of the data and removed any outliers before exporting the data collected from MS Access® into SPSS.® The Aspen/KCG team then calculated response frequencies for each test question and then reviewed the results. Aspen/KCG staff then created matrices to organize the data and determined (a) what the data meant in terms of the other results and (2) how to revise the GFE.

## Results in Brief

The following list provides a brief overview of testing results from all six rounds of testing:

- ▼ Rounds 1–3 were iterative development testing projects that resulted in drafts of the GFE and MPO, and a recommendation to take a different approach to the Crosswalk form.
- ▼ Round 4 involved collecting quantitative data with respect to the GFE to determine if there was bias against mortgage brokers. The results of the “tie” test, a brokered loan with the same cost as a loan from a lender, were consistent with bias against mortgage brokers.
- ▼ Round 5 involved collecting quantitative data with respect to the GFE to determine if there was bias against mortgage brokers. In this round, KCG studied:
  - two types of YSP disclosures (a 2-option YSP vs. a 3-option YSP disclosure),
  - changes in characterizing the interest from higher and lower to restating the interest rate;
- the addition of arrows to call attention to important summary-line cost information; and
- the addition of a mortgage shopping chart to assist consumers in the comparison of various loan offers.
- ▼ Results from Round 5 of testing found no evidence of a bias against mortgage brokers when loan costs differ, and no bias against mortgage brokers in the case of a tie when the shopping chart appears as the last page of the GFE.
- ▼ Round 6 results suggest that the consumer-validated GFE from Round 5 is performing well and that the additional information provided in Settlement Scripts are effective in helping consumers compare important information between the GFE and the HUD-1.

For detailed information on each individual round of testing, please refer to the official testing reports located at <http://www.kleimann.com/hud.htm>.

# Table of Contents

<b>Introduction</b> .....	<b>6</b>
Contents of the Summary Report.....	7
<b>Round 1 Testing</b> .....	<b>9</b>
Introduction .....	9
HUD's Goals .....	10
Methodology .....	10
Study Questions .....	16
Summary of Findings .....	16
Recap of HUD's Goals .....	22
Recommendations for Improving the Forms.....	24
How the Forms Changed .....	26
Questions for Round 2 Testing.....	34
<b>Round 2 Testing</b> .....	<b>36</b>
Introduction .....	36
HUD's Goals .....	36
Methodology .....	37
Study Questions .....	43
Summary of Findings .....	43
Recap of HUD's Goals .....	53
Recommendations for Improving the Forms.....	55
How the Forms Changed .....	56
Questions for Round 3 Testing.....	65
<b>Round 3 Testing</b> .....	<b>67</b>
Introduction .....	67
HUD's Goals .....	67
Methodology .....	67
Study Questions .....	74
Summary of Findings .....	75
Recap of HUD's Goals .....	87
Recommendations for Improving the Forms.....	91
How the Forms Changed .....	93
Questions for Round 4 Testing.....	100
<b>Round 4 Testing</b> .....	<b>102</b>
Introduction .....	102
HUD's Goals .....	103

# Table of Contents

Methodology .....	103
Study Questions .....	106
Summary of Findings .....	107
Recap of HUD's Goals .....	109
Recommendations for Improving the Forms .....	110
How the Forms Changed .....	111
Questions for Round 5 Testing.....	116
<b>Round 5 Testing.....</b>	<b>118</b>
Introduction .....	118
HUD's Goals .....	118
Methodology .....	119
Study Questions .....	125
Summary of Findings .....	126
Recap of HUD's Goals .....	132
Recommendations for Improving the Forms .....	133
How the Forms Changed .....	134
<b>Round 6 Testing.....</b>	<b>136</b>
Introduction .....	136
Test 1—Revised GFE and Alternate GFE .....	137
Methodology for Test 1 .....	137
Study Questions for Test 1 .....	143
Test 2—Revised GFE, HUD-1, and Settlement Script .....	144
Methodology for Test 2.....	144
Study Questions for Test 2 .....	149
Analytical Approach.....	150
Summary of Findings .....	151
Recap of HUD's Goals for Testing .....	156
Recommendations for Improving the Forms .....	158
<b>The GFE Today .....</b>	<b>159</b>
<b>Appendices .....</b>	<b>164</b>

# Introduction

# Introduction

On July 29, 2002, the U.S. Department of Housing and Urban Development (HUD) proposed a new rule under the Real Estate Settlement Procedures Act (RESPA) to simplify and improve the process of obtaining home mortgages. As part of the RESPA rule, HUD proposed a revision to the existing GFE as well as the development of new forms, among which was the Guaranteed Mortgage Package Agreement (GMPA). HUD intended for mortgage brokers and lenders to use these revised and new forms to provide borrowers with accurate, dependable estimates of their closing costs.

HUD's main goals in revising these forms include the following:

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

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

Kleimann Communication Group, Inc. (KCG), through a subcontract with Aspen Systems and HUD, led the redesign of HUD's GFE and clarified the language of the redesigned form. The Aspen/KCG team then tested the additions and revisions to the form in small- and large-scale, nationwide studies. During the first three rounds of testing, KCG took the lead in small-scale qualitative testing, while Aspen and KCG worked as a team on large-scale quantitative testing (Rounds 4 and 5). Aspen and KCG both provided team members for test design, focus group proctoring, and observing test sessions. Aspen led the development of databases to manage test data as well as completing the data entry. KCG provided staff for the analysis of data collected during testing, particularly with respect to qualitative data collected during Rounds 4 and 5. The cycle of five rounds of testing ended in 2005 when HUD decided to reassess the direction of RESPA reform. In late 2007, in conjunction with renewed RESPA reform efforts, HUD contracted with KCG to conduct an additional qualitative round of testing (Round 6).

During the first three rounds of testing, work mainly focused on building and revising the forms to produce a set of forms that would be involved in consumer testing. HUD and KCG performed this work—driven by the need to simplify both the language and the layout of the GFE. Data from consumer testing drove future revisions to the forms.

In 2003, the Federal Trade Commission (FTC) performed its own round of consumer testing based on the GFE. The FTC's objective was to study whether the YSP disclosure could unfairly bias consumers against mortgage brokers. Thus, FTC extracted sections of the proposed and new GFE, specifically the YSP disclosure, and tested only those sections that the FTC believed

# Introduction

might create an unfair bias against mortgage brokers. FTC's data did suggest that consumers using the extract only would (a) become confused when the YSP was disclosed and (b) become biased against brokers as a result of the disclosures made in the YSP. However, the FTC did not test the whole GFE; it used only an extract, and as such, consumers had no context against which to compare and contrast the YSP information. As a result, the FTC reported a significant bias against brokers, based solely on the extract. Whether this bias applies to the GFE as a whole would depend on testing results for the entire GFE rather than an extract.

Because of the FTC study, HUD directed an additional two rounds of consumer testing on the GFE (Rounds 4 and 5). In late 2003, HUD directed KCG to mirror aspects of the FTC study (such as studying the GFE, both with and without the YSP disclosure) in Round 4 of testing; however, HUD wanted to keep the YSP in context by testing the entire GFE, rather than the extracted YSP disclosures.

Staff used data collected in Round 4 testing to make improvements to the GFE. The revised GFE was the basis for another round of consumer testing (Round 5), in which KCG collected data to see how well the forms worked as a result of the consumer-driven changes to the GFE.

In 2005, HUD decided to reassess the direction of RESPA reform, and work on the GFE ceased until 2007, when renewed RESPA reform efforts compelled HUD to undertake an additional round of testing on the GFE. This second phase of work on the GFE, which included two separate testing sessions (diagnostic usability testing and a closing simulation), focused on

- ▼ validating the proposed GFE and the professionally developed GFE used in Round 1 of testing,
- ▼ testing a new, short version of the GFE, and
- ▼ testing new Settlement Scripts used to help consumers compare closing costs between the GFE and the HUD-1.

## Contents of the Summary Report

This summary report provides a high-level overview of each round of HUD's GFE testing and includes information on the following for each round of testing:

- ▼ HUD's Goals
- ▼ Methodology and Demographics
- ▼ Study Questions
- ▼ Summary of Findings
- ▼ Recommendations for Improving the Forms
- ▼ How the Forms Changed

For detailed information on each individual round of testing, please refer to the official testing reports located at <http://www.kleimann.com/hud.htm>.

# Round 1 Testing

# Round 1 Testing

## Introduction

The first round of HUD testing involved two forms. These forms included:

- ▼ the Good Faith Estimate form (GFE) and
- ▼ the Guaranteed Mortgage Package Agreement form (GMPA).

Prior to the start of testing, staff from KCG, through a subcontract with Aspen Systems, met with key subject matter experts at HUD to discuss the two forms involved in Round 1 testing. At this meeting, staff discussed HUD's goals and key messages for the forms as well as the problems and issues that HUD anticipated borrowers might have with the forms.

KCG then developed an initial draft of each form, and HUD officials reviewed the drafts, offering feedback to revise the forms further. KCG then used usability experts and graphic designers to develop the two forms that would meet the key criteria for good forms design. The key criteria for good forms design ensure that people can

- ▼ follow the right pathways (Navigation),
- ▼ understand the information presented (Comprehension), and
- ▼ use the form appropriately (Task Completion/Decision Support).

Through an iterative process of review and redesign, KCG developed a draft of each form for Round 1.

During initial form development, a difference of opinion surfaced over whether homebuyers would prefer a form containing a summary of the settlement costs on page 1 or a form with the total settlement costs after full disclosure of the mortgage details. Thus, KCG developed two versions of the GFE to see which method of presentation participants would prefer. KCG tested both versions in Round 1 of testing.<sup>1</sup>

Baseline forms used for Round 1 of testing appear in Appendix A.

<sup>1</sup> Round 1 participants preferred the GFE form with a summary on page 1. As such, KCG tested this version of the GFE in Round 2 of testing. Comments from test participants also informed additional changes to the GFE that KCG tested in Round 2.

# Round 1 Testing

## HUD's Goals

Prior to testing, KCG identified HUD's Round 1 testing goals. HUD's goals included the following:

- ▼ Facilitating shopping for mortgages
  - Are consumers willing to shop?
  - Are consumers able to choose the best loan offer?
- ▼ Distinguishing items homebuyers can shop for
  - Are consumers able to identify items for which they can shop?
- ▼ Making basic costs clear
  - Are consumers able to identify the interest rate, monthly payment, and settlement charges correctly?
- ▼ Showing yield spread premium (YSP) and discounts to borrowers
  - Are consumers able to explain the “adjusted origination charge”?
  - Are consumers able to see what the trade-offs are?
- ▼ Making tolerances to HUD-1 clear
  - Are consumers able to identify tolerances on the GFE and GMPA?
- ▼ Conveying prepayment penalties and balloon payments
  - Are consumers able to identify whether their loan has a prepayment penalty?
  - Are consumers able to identify whether their loan has a balloon payment?

## Methodology

KCG developed a comprehensive testing methodology that addressed key issues and questions about the forms. Interviews with participants lasted for 90 minutes with a 10-minute break, and the interviews had two parts: one part unstructured, and one structured.

In the **unstructured** portion of the interview, KCG asked participants to think aloud as they worked with each form for the first time. This unstructured and unprompted portion of the interview allowed staff to capture users' initial reactions, including

- ▼ areas of the forms that participants respond well to,
- ▼ areas of the forms that participants do not understand, and
- ▼ areas of the forms that participants question.

Testing staff captured this valuable information before questioning participants about different elements of the forms, ensuring that the interviewer did not lead participants to discuss information they would not have noticed on their own.

# Round 1 Testing

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

## Testing Conditions

For the first round of testing, KCG developed two versions of the GFE. One of the major issues about which KCG wanted to collect data was whether participants found it easier to use a GFE that had a summary page or a GFE that did not contain a summary page. As part of the study design, half of the participants received the GFE with the summary page and half received a version without the summary page.

In addition, testing staff varied the order in which participants received the forms. Staff reasoned that whichever form participants saw second might seem clearer to them because they became more familiar with the issues after looking at the first form. Half of the participants received the GFE first and half received the GMPA first.

These two considerations resulted in four conditions for the participants (Table 1). The following reflects the number of participants tested in each condition:

- ▼ Condition 1: 12 participants
- ▼ Condition 2: 11 participants
- ▼ Condition 3: 11 participants
- ▼ Condition 4: 11 participants

**Table 1. 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 participants saw and did during the testing appear below in Tables 2 and 3. For the first round of testing, conditions 1 and 2 had the same schedule, and conditions 3 and 4 had the same schedule.

# Round 1 Testing

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

Section	TimeAllotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant 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 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 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.
<b>Total time</b>	<b>90 minutes</b>	

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

Section	TimeAllotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant 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 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.
<b>Total time</b>	<b>90 minutes</b>	

# Round 1 Testing

## Demographic and Test Site Information

The GFE and GMPA are forms 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: (1) first-time and repeat homebuyers; and (2) persons who might refinance their homes. KCG 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 previous 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 previous two years.

After developing the forms in cooperation with HUD, KCG tested them at three geographically diverse locations that represent varied settings and populations (Table 4). For the first round, testing took place during a one-week period.

**Table 4. Round 1 Test Dates and Locations**

Dates	Cities	Number of Participants Tested
December 9–13, 2002	Baltimore, MD	15
	Birmingham, AL	15
	Chicago, IL	15
	<b>Total</b>	<b>45</b>

## Recruiting the Participants

KCG recruited 45 participants across three sites and required each of the testing facilities to use a screener in recruiting participants. KCG based the recruiting screener on the demographics that HUD required for the sample.

## Eligibility Requirements

HUD had several criteria for recruiting participants for the sample. First, one-third of the sample needed to be new homebuyers. Second, HUD wanted to test the forms with groups that might have more difficulty with the forms due to less experience or other reasons. This includes the following:

- ▼ 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

# Round 1 Testing

## Recruitment by Site

At each location, KCG recruited 15 participants that met the requirements shown in Table 5.

**Table 5. Recruiting Criteria for the Sample**

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

## Demographics

Table 6 shows the results of the recruiting efforts at each site. Overall, KCG achieved adequate representation from each of the groups. Testing staff would have preferred more elderly participants included in the sample and more of those with lower educational levels; however, a sizable number of these populations were in each group. The sample had very good representation of different racial and ethnic groups, and many of the participants spoke and wrote English as a second language. In addition to the Hispanic group, participants from Korea, Pakistan, Turkey, and Germany (among others) were part of the sample.

# Round 1 Testing

**Table 6. Round 1 Demographic Characteristics of the Sample**

Demographic Characteristic	Number In Sample
<b>Age<sup>2</sup></b>	
21 years or less	0
22 to 34 years	15
35 to 44 years	6
45 to 54 years	9
55 to 64 years	6
65 years and over	7
<b>Race and Ethnicity</b>	
Hispanic	6
Black or African American	12
Asian	0
<b>Education—highest grade completed</b>	
Less than high school	3
High school graduate	4
Some college	18
College graduate	15
Graduate school	5
<b>Household Income Per Year</b>	
Less than \$20,000	3
\$20,000 to \$39,999	11
\$40,000 to \$59,999	14
\$60,000 to \$79,999	6
\$80,000 to \$99,999	4
\$100,000 and over	5
No response	2
<b>Marital Status and Gender</b>	
Single male	8
Single female	14
Married male	11
Married female	12

<sup>2</sup> Some participants did not respond to all demographic questions.

# Round 1 Testing

KCG planned to have two-thirds of the sample be experienced homebuyers who had bought or refinanced a home in the previous two years. As shown in Table 7, testing staff achieved this almost exactly. 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 7. Home-buying Experience of the Sample**

Home-buying Experience	Number in Sample
Bought or refinanced in the past 2 years	29
Plan to buy in the next 6 months	16
Of those who plan to buy:	
Have gone to open houses	12
Have contacted a real estate agent	10
Have pre-qualified for a mortgage loan	4

## Study Questions

The study questions KCG identified for Round 1 of testing included the following:

- ▼ What do participants consider the most useful information on both the GFE and the GMPA?
- ▼ What do participants like the most about the GFE and the GMPA?
- ▼ What do participants like the least about the GFE and the GMPA?
- ▼ How comfortable or uncomfortable are participants with the GFE and the GMPA?
- ▼ Do the forms provide the right information for participants?
- ▼ Are the GFE and GMPA written at the “right level” for participants?

## Summary of Findings

### What do participants consider the most useful information on both the GFE and the GMPA?

For both the GFE and the GMPA, staff asked participants what they considered the most useful information on the form. This was an open-ended question and some participants did not respond.

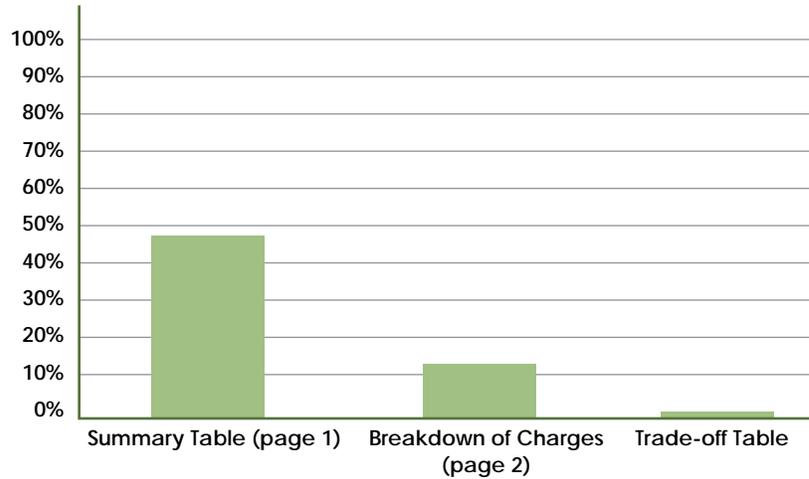
#### What do participants consider the most useful information on the GFE?

In Round 1, participants found the most useful types of information to be 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, such as the costs they can expect and ways to manipulate those costs to their own benefit.

# Round 1 Testing

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

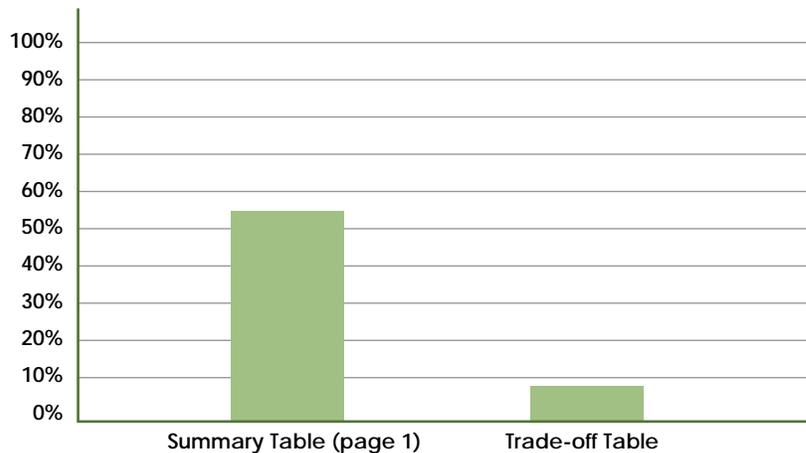
**Figure 1. Participants' Perception of the Most Useful Information on the GFE—Round 1**



## What do participants consider the most useful information on the GMPA?

In testing the GMPA, participants again responded most to types of information that offered facts about the money they would have to pay or options about the amount that they would have to pay. Participants chose the summary table (page 1) and the trade-off table as the information they thought was the most useful (Figure 2).

**Figure 2. Participants' Perception of the Most Useful Information on the GMPA—Round 1**



# Round 1 Testing

## What do participants like the most about the GFE and the GMPA?

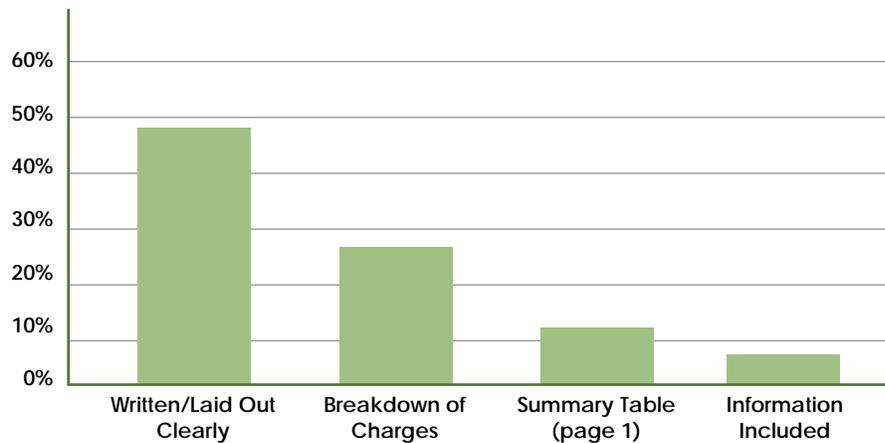
Staff asked participants what they liked most about the forms, if anything. Participants were free to respond in many ways, so the results cover a range of possible responses. Staff grouped the responses in categories. However, many of the responses were unique to a given individual, which staff did not include in reports based on this study.

## What do participants like the most about the GFE?

The two top-ranking qualities dealt with clarity—of writing, of design, and of charges. Some of these results were the same as described in the previous section about the most useful information.

Participants reacted strongly to the form’s simple language, clear layout, and clear delineation of charges. They consistently chose those qualities as what they liked most about the GFE (Figure 3).

**Figure 3. What Participants Liked Most about the GFE—Round 1**

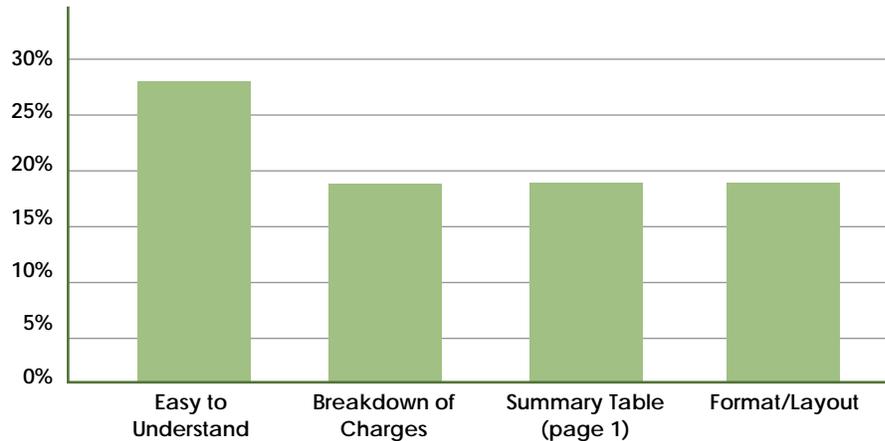


## What do participants like the most about the GMPA?

Participants identified some of the same qualities or sections as they did on the GFE as ones they liked on the GMPA, while adding some new ones. In responding to the GMPA, participants continued to react positively to the writing, breakdown of charges, and layout of the form. Some participants also commented on the summary table. Participants identified four qualities they liked the most about the GMPA. All of these qualities (Figure 4) 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 participants to use.

# Round 1 Testing

**Figure 4. What Participants Liked Most about the GMPA—Round 1**



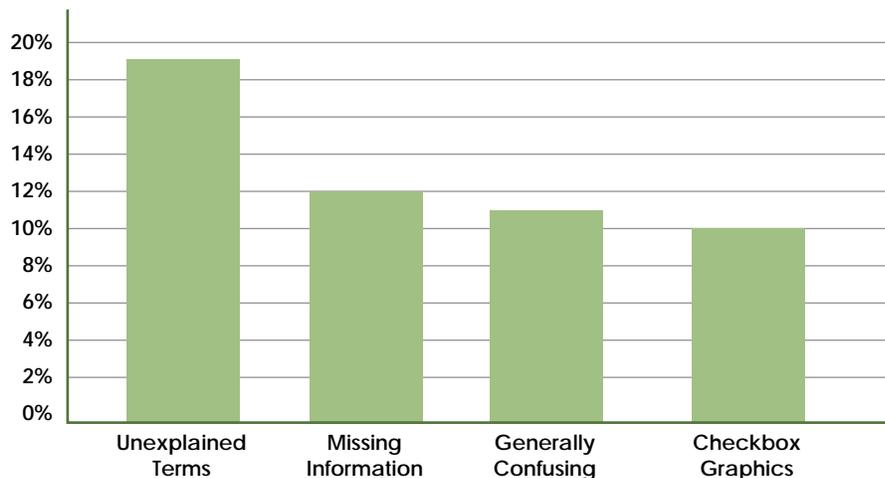
## What do participants like the least about the GFE and the GMPA?

Staff also asked participants what they liked least about the GFE and the GMPA.

### What do participants like the least about the GFE?

In Round 1 of testing, the elements that participants disliked most were the unexplained terms, missing information, generally confusing content, and the checkbox graphics (Figure 5).

**Figure 5. What Participants Like the Least about the GFE—Round 1**



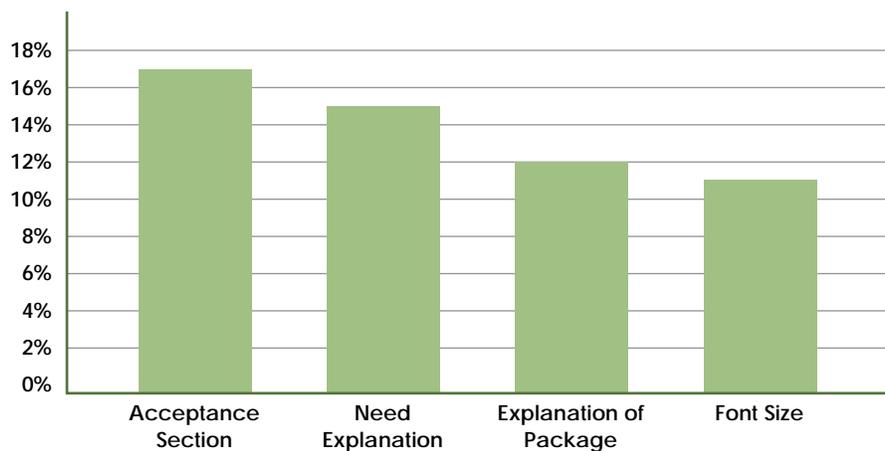
# Round 1 Testing

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

## What do participants like the least about the GMPA?

In Round 1, as shown in Figure 6, participants identified these elements of the form as what they disliked the most: the acceptance section, lack of sufficient explanation, lack of explanation of what is included in the mortgage package, and font size.

**Figure 6. What Participants Dislike Most about the GMPA**



## How comfortable or uncomfortable are participants with the GFE and the GMPA?

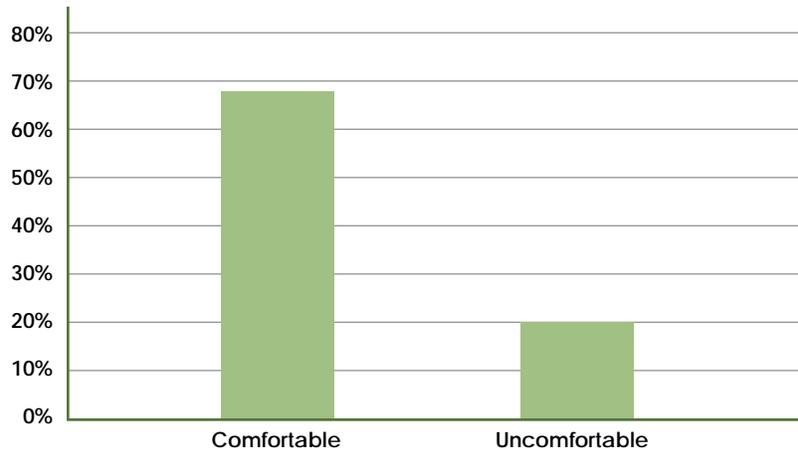
Staff asked participants how comfortable or uncomfortable they were with the form after they had completed many of the other questions. Staff attempted to get participants to choose one characterization or the other, but if they remained undecided, staff recorded that response as neutral.

## How comfortable or uncomfortable are participants with the GFE?

Many participants were not willing to make a choice on their comfort level with the GFE. Figure 7 provides more information on participants' comfort levels with the GFE.

# Round 1 Testing

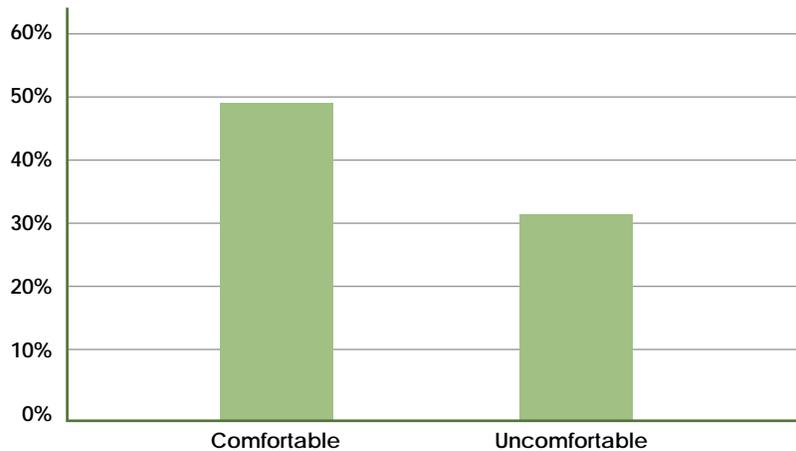
**Figure 7. Participants' Comfort Level with the GFE**



## How comfortable or uncomfortable are participants with the GMPA?

During the first round of testing, many participants unfavorably compared the GMPA to the GFE. Figure 8 provides more information on participants' comfort levels with the GMPA.

**Figure 8. Participants' Comfort Level with the GMPA**

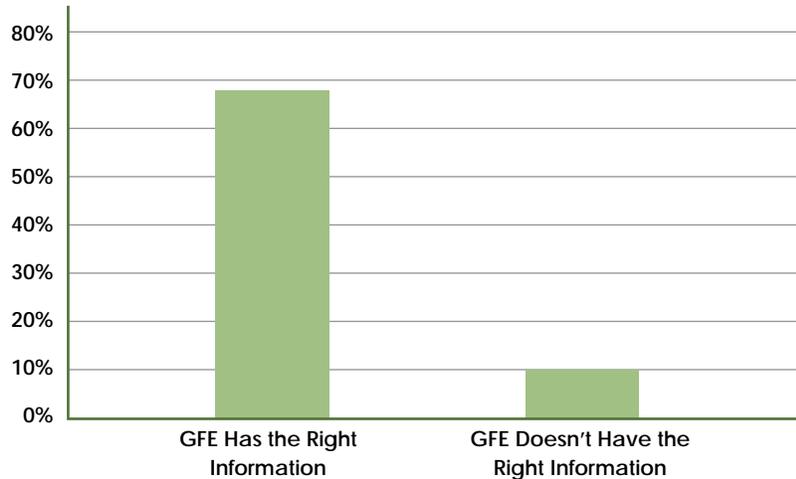


## Do the forms provide the right information for participants?

Staff asked a general question about whether participants felt that the form provided the “right information” for them. The percentage of participants who thought the GFE provided the right information for them was high in Round 1 of testing—70 percent (Figure 9). For the GMPA, close to 62 percent felt the form provided the right information.

# Round 1 Testing

**Figure 9. Percent of Participants Who Feel the GFE Has the Right Information**



## Are the GFE and GMPA written at the “right level” for participants?

Staff asked participants whether they thought each form’s writing was at the right level for them. If participants responded that a form was not at the right level, staff noted whether they thought it was too basic or too difficult. None of the participants felt the forms were too basic, which is not surprising given the complexity of the subject matter.

## Recap of HUD’s Goals

After the first round of testing, KCG assessed HUD’s testing goals to see if the first round of testing met HUD’s needs. HUD’s goals included the following:

- ✓ **Facilitating shopping for mortgages**
  - Almost all homebuyers said they would shop.
  - 93 percent would get more than one GFE.
  - 86 percent were able to find the lowest estimate among two GFEs and one GMPA.
  
- ✗ **Distinguishing items homebuyers can shop for**
  - Only 62 percent of participants were able to identify the difference between items 3 and 5 on the GFE (consumers can shop for those in item 5).
  
- ✓ **Making basic costs clear**
  - 93 percent were able to identify the correct interest rate.
  - 95 percent were able to identify the monthly payment.

# Round 1 Testing

- 91 percent were able to identify the estimate of the total settlement charges in the GFE.
- 90 percent were able to identify the estimate of the total settlement charges in the GMPA.

## **X** Showing yield spread premium (YSP) and discounts to borrowers

- 12 participants understood fully or had very minor questions.
- 6 participants skipped or did not comment on the table.
- 27 participants did not understand the table at all or had major problems. Of the 27 who did not understand,
  - ▼ 13 understood the figures and the calculation but not why they were getting a credit
  - ▼ 8 had particular problems with the term “origination charge” or “adjusted origination charge”
  - ▼ 3 did not understand how their interest rate related to the figure
  - ▼ 4 had other problems
- Staff asked participants what “adjusted origination charge” meant to them
  - ▼ 22 were not sure or didn’t know
  - ▼ 15 answered “processing of the loan” (e.g., “The charge is for how much to pay the lender.”)
  - ▼ 9 had some understanding of “adjusted origination charge” (e.g., “This is the difference between the origination charge and the part that I don’t understand. A charge minus a confusing charge equals a confusing charge.”)
  - ▼ 4 had incorrect or irrelevant responses (e.g., “This is the penalty fee if I don’t lock in within 30 days.”)

## **X** Making tolerances to HUD-1 clear

- For most charges on the GFE and the GMPA, less than half of the participants could identify the correct tolerance level.
- For the GFE, the only charge identified by more than 70 percent of the participants was third party services the lender selects.
- For the GMPA, the only charge identified by more than 70 percent of the participants was the guaranteed mortgage package.

## **✓** Conveying prepayment penalties and balloon payments

- 91 percent of participants correctly identified whether the loan had a pre-payment penalty.
- 93 percent of participants correctly identified whether the loan had a balloon payment.

# Round 1 Testing

## Recommendations for Improving the Forms

After Round 1 of testing, KCG recommended the following improvements for the second round of testing:

### Recommendations for GFE Revision

#### About Your GFE

- ▼ Leave as is, excluding terminology issues.
- ▼ Give contact information for loan originator.

#### Summary of Your Loan Terms

- ▼ Keep the summary of the total estimated settlement charges on page 1.
- ▼ Switch the order of the tables—loan amounts followed by settlement charges.
- ▼ Make more of a visual separation between the “fixed” and “adjustable” columns.
- ▼ Give date when GFE issued.

#### Understanding Your Estimated Settlement Charges

- ▼ Add further explanation of the adjusted origination charge.
- ▼ Change the way the tolerances are presented.
- ▼ Add further explanation of some of the different settlement charges.
- ▼ Eliminate the checkboxes and use a different graphic element in “other charges” section.
- ▼ Create a better visual distinction between subtotals and totals on this page.

#### Understanding the Trade-off

- ▼ Improve text explanation; tie it to the table more effectively.
- ▼ Keep same information in table but rearrange to improve clarity.
- ▼ Leave spaces for all items that will change.

#### Understanding the Subtotals

- ▼ Integrate information with page 2, so that it is clear how these numbers fit into the totals.
- ▼ Change the checkboxes to bullets.

# Round 1 Testing

## Recommendations for GMPA Revision

### About Your GMPA

- ▼ Improve format of text to make it more accessible.
- ▼ Eliminate references to other pages as much as possible.
- ▼ Explain what is guaranteed more clearly.
- ▼ Give contact information for the loan originator.

### Summary of Your Loan Terms

- ▼ Switch the order of the tables—loan amounts followed by settlement charges.
- ▼ Make more of a visual separation between the “fixed” and “adjustable” columns.
- ▼ Give date when GMPA issued.

### Understanding Your Estimated Settlement Charges

- ▼ Explain what is included in the GMPA.
- ▼ Change the way the tolerances are presented.
- ▼ Add further explanation of the different settlement charges.
- ▼ Create a better visual distinction between subtotals and totals on this page.

### Understanding the Trade-off

- ▼ Improve text explanation; tie it to the table more effectively.
- ▼ Keep same information in table, but rearrange to improve clarity.
- ▼ Leave spaces for all items that will change.

### Services Included in the Package

- ▼ Change title to receive “reports,” not “services.”

### Accepting this GMPA

- ▼ Rewrite content completely.
- ▼ Make issue of the fee clearer.
- ▼ Change appearance to be less dense, more inviting.

# Round 1 Testing

## How the Forms Changed

### GFE

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

During Round 1 of testing, KCG found that participants 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. All subsequent versions of the GFE had a summary on the first page. Some of the other major problems that participants had during the first round of testing as well as the changes KCG made for Round 2 appear in the table below:

Problem	Change Made to the GFE
Many terms were not understood; in particular, participants 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.
Page 1 references to page 2 annoyed participants; 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 participants to encounter the references when they are about to turn to the next page anyway.
Some participants 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 fixed rate and adjustable rate loans.
Participants were not clear how much time they had to consider the offer.	We put a date in the first paragraph.
Participants 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 participants 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 participants thought they should check something when they shouldn’t, and vice versa.	We only used checkboxes when something should be checked.
Sometimes participants were not clear what charges were added to the total on the second page.	We added letters (A and B) that were then shown next to the total (as A+B) to guide the participants.
Participants 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 participants. This caused some to make errors on the best choice of a loan.	We rewrote this section and made clearer references to page 2.

A sample of forms tested in Round 2 appear in Appendix B.

# Round 1 Testing

## GMPA (MPO)<sup>3</sup>

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

Some of the problems that participants had with the GMPA are the same as they had with the GFE, and some were different. The ones that were different appear in the table below:

Problem	Change Made to the GMPA
Participants 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 reassure them.	We changed the name of the form to the Mortgage Package Offer, or MPO.
On the second page of the GMPA, participants 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.
Participants 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 participants who had liked the GMPA turned against it due to this last section. Many participants 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.

<sup>3</sup> After Round 1, the name of the Guaranteed Mortgage Package Agreement (GMPA) changed to the Mortgage Package Offer (MPO).



# 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.

Date added

## 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 <sup>00</sup>	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> 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?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> No	

Added visual separation between columns

Summary table moved to bottom of page 1

### Your Settlement Costs

Your Adjusted Origination Charges (see items 1 and 2 on page 2)	\$ 2,000 <sup>00</sup>
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	\$ 3,700 <sup>00</sup>
<b>Total Estimated Settlement Charges</b>	<b>\$ 5,700<sup>00</sup></b>

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 <input checked="" type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)	-\$2,500.00
<b>A</b> 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 2/25/23).		\$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>B</b> Your Charges for All Other Settlement Services		\$3,700.00

Added letters next to totals to guide users

**A + B = Total Estimated Settlement Charges**

**\$5,700.00**

**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) 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

Created new section for tolerances

**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. <sup>00</sup>	\$ 100,000. <sup>00</sup>	\$ 100,000. <sup>00</sup>
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. <sup>00</sup>	Your higher interest rate will lower your settlement costs by \$1,000. <sup>00</sup>
How much your total estimated settlement charges will be	\$ 5,700. <sup>00</sup>	\$ 6,700. <sup>00</sup>	\$ 4,700. <sup>00</sup>

Reorganized trade-off table and related information

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. <sup>00</sup>
Lender Charges	\$ 150. <sup>00</sup>
<b>Our Service Charge</b>	<b>\$ 4,500.<sup>00</sup></b>

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

Title Agent Charges	\$ 675. <sup>00</sup>
Title Insurance Premiums	\$ 225. <sup>00</sup>
Other Title Charges	\$ —
<b>Title Services and Lender's Title Insurance</b>	<b>\$ 900.<sup>00</sup></b>

Revised section to make clearer references to page 2



# Mortgage Package Offer (MPO)

Changed name of form from Guaranteed Mortgage Package Agreement (GMPA) to 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.

<b>Your loan amount will be:</b>		\$ <u>100,000.00</u>
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	<u>7.5%</u>	% 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	<u>30</u> years	years
Your monthly payment for principal, interest, and any mortgage insurance	\$ <u>699.21</u>	\$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$
Your APR	<u>7.71%</u>	%
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> No	

### Your Settlement Costs

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



Understanding Your Settlement Charges

Charge for Your Guaranteed Mortgage Package

<p><b>1. Your Guaranteed Mortgage Package</b></p> <p>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:</p> <p><b>Your charges for loan origination</b> These charges are for the services we provide when we get and process this loan for you.</p> <p><b>Third party settlement services</b> 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.</p> <p><b>Title services and lender's title insurance</b> This charge includes the services of a settlement agent, for example, and title insurance to protect the lender, if required.</p> <p><b>Taxes and fees</b> This charge includes state and local taxes and fees.</p>	
<b>Your Guaranteed Mortgage Package Charges</b>	
	<b>\$ 4,600.00</b>

Your Estimated Charges for Settlement Services Outside the Package

<p><b>2. Reserves or escrow</b></p> <p>This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.</p>	<b>\$697.25</b>
<p><b>3. Daily interest charges</b></p> <p>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).</p>	<b>\$102.75</b>
<p><b>4. Homeowner's insurance</b></p> <p>This charge is for the insurance you must buy for the property to protect from a loss such as fire.</p>	<b>\$500.00</b>
<p><b>5. Optional owner's title insurance</b></p> <p>This charge is for insurance you can choose to buy to protect yourself from title defects.</p>	<b>\$300.00</b>
<b>Your Estimated Charges for Settlement Services Outside the Package</b>	
	<b>\$ 1,600.00</b>
<b>Total Estimated Settlement Charges</b>	
	<b>\$ 6,200.00</b>

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	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Lender's Title Insurance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Property Appraisal	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Report	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Included service descriptions



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 \$ 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	\$ 6,200.00	\$ 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. US Treasury <sup>Bank</sup> 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

Rewrote acceptance section

Our Signature Bill Reid

Date 1/20/03

Your Signature \_\_\_\_\_

Date \_\_\_\_\_

# Round 1 Testing

## Questions for Round 2 Testing

The study questions for Round 2 of testing mirrored those of Round 1 and included the following:

- ▼ What do participants consider the most useful information on both the GFE and the MPO?
- ▼ What do participants like the most about the GFE and the MPO?
- ▼ What do participants like the least about the GFE and the MPO?
- ▼ How comfortable or uncomfortable are participants with the GFE and the MPO?
- ▼ Do the forms provide the right information for participants?
- ▼ Are the GFE and MPO written at the “right level” for participants?

# Round 2 Testing

# Round 2 Testing

## Introduction

The second round of testing mirrored many of the aspects of the first round, again focusing on the GFE and the MPO (formerly known as the Guaranteed Mortgage Package Agreement form, or GMPA). This second round of testing also served to validate changes made to the forms based on data from the first round of testing. Additionally, KCG, through a subcontract to Aspen Systems, tested two Crosswalks (one between the GFE and the HUD-1 and the other between the MPO and the HUD-1), which would serve as aids to consumers in comparing information between estimated and actual settlement costs.

## HUD's Goals

HUD's goals for Round 2 of testing were similar to the first round's goals:

- ▼ Facilitating shopping for mortgages
  - Are consumers willing to shop?
  - Are consumers able to choose the best loan offer?
- ▼ Distinguishing items homebuyers can shop for
  - Are consumers able to identify items for which they can shop?
- ▼ Making basic costs clear
  - Are consumers able to identify the interest rate, monthly payment, and settlement charges correctly?
- ▼ Showing yield spread premium (YSP) and discounts to borrowers
  - Are consumers able to explain the “adjusted origination charge”?
  - Are consumers able to see what the trade-offs are?
- ▼ Making tolerances to HUD-1 clear
  - Are consumers able to identify tolerances on the GFE and MPO?
- ▼ Conveying prepayment penalties and balloon payments
  - Are consumers able to identify whether their loan has a prepayment penalty?
  - Are consumers able to identify whether their loan has a balloon payment?

In addition to the above goals, which KCG carried over from the first round of testing, HUD added the following:

- ▼ Providing a Crosswalk for the estimates from the GFE and MPO to the HUD-1
  - Are consumers able to fill in the information from the GFE on the Crosswalk correctly?
  - Are consumers able to find a discrepancy in the cost if the forms are filled in correctly?

# Round 2 Testing

## Methodology

For Round 2, KCG mirrored the comprehensive testing methodology developed for Round 1, which addressed key issues and questions about the forms. Interviews with participants lasted for 90 minutes with a 10-minute break, and the interviews had two parts: one part unstructured, and one structured.

As in Round 1, in the **unstructured** portion of the interview, KCG asked participants to think aloud as they worked with each form for the first time. This unstructured and unprompted portion of the interview allowed staff to capture users' initial reactions, including

- ▼ areas of the forms that participants respond well to,
- ▼ areas participants do not understand, and
- ▼ areas participants question.

Staff captured this valuable information before questioning participants about different elements of the forms, ensuring that the interviewer did not lead participants to discuss information they would not have noticed on their own.

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

## Testing Conditions

For the second round of testing, KCG was concerned with different issues than those in Round 1. KCG developed a Crosswalk from the GFE to the HUD-1 and tested it with participants. Staff had only one version of the GFE and the MPO to test; however, staff still wanted to vary the order of presentation of the GFE and the MPO. The testing team decided to have two-thirds of the participants work with copies of the GFE and MPO. Of these 30 participants, half received the GFE first followed by the MPO, and half had the reverse order. The other third of the participants received copies of the GFE but worked primarily with the Crosswalk to the HUD-1. This resulted in the three conditions shown in Table 8.

**Table 8. 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

# Round 2 Testing

The task descriptions and time breaks for participants in each of the conditions appear in Tables 9, 10, and 11.

**Table 9. Schedule of Testing for Condition 1 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 participant 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 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 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.
<b>Total time</b>	<b>90 minutes</b>	

**Table 10. 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 participant 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 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.
<b>Total time</b>	<b>90 minutes</b>	

# Round 2 Testing

**Table 11. 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 participant 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 completed as an example.
Task 2	15	We give the participant the Crosswalk to the HUD-1 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 Crosswalk and ask him/her to fill in the information from the HUD-1 while thinking aloud.
Task 4	20	We ask the participant questions about how the GFE compares with the HUD-1.
<b>Total time</b>	<b>90 minutes</b>	

## Demographic and Test Site Information

The GFE, MPO, and Crosswalks are forms used by those applying for a mortgage to buy or refinance a home. Therefore, the target population for Round 2 of this study included two main groups of potential borrowers: (1) first-time and repeat homebuyers; and (2) persons who might refinance their homes. Staff 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 previous 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 previous two years.

# Round 2 Testing

After revising the forms in cooperation with HUD, KCG tested them at three geographically diverse locations that represent varied settings and populations (Table 12).

**Table 12. Round 2 Test Dates and Locations**

Dates	Cities	Number of Participants Tested
January 20–24, 2003	Austin, TX	15
	San Diego, CA	15
January 30–February 4, 2003	Portland, OR	15
	<b>Total</b>	<b>45</b>

## Recruiting the Participants

KCG recruited 45 participants across three sites. Staff required each of the facilities to use a recruitment screener in recruiting participants. KCG based the screener on the demographics that were required for the sample.

## Eligibility Requirements

HUD had several criteria for recruiting participants for the sample. First, one-third of the sample needed to be new homebuyers. Second, HUD wanted to test the forms with groups that might have more difficulty with the forms due to less experience or other reasons. This includes the following:

- ▼ 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, staff recruited 15 participants that met the requirements shown in Table 13.

# Round 2 Testing

**Table 13. Recruiting Criteria for the Sample**

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

## Demographics

Table 14 shows the results of the recruiting efforts at each site. Overall, staff achieved adequate representation from each of the groups that HUD wanted to include in the sample. Again, staff would have preferred more elderly participants as well as more of those with lower educational levels, but there were a sizable number in each group. This sample also had very good representation of different racial and ethnic groups, and many of the participants spoke and wrote English as a second language.

# Round 2 Testing

**Table 14. Round 2 Demographic Characteristics of the Sample**

Demographic Characteristic	Number In Sample
<b>Age<sup>4</sup></b>	
21 years or less	1
22 to 34 years	9
35 to 44 years	14
45 to 54 years	10
55 to 64 years	4
65 years and over	7
<b>Race and Ethnicity</b>	
Hispanic	10
Black or African American	7
Asian	9
<b>Education—highest grade completed</b>	
Less than high school	6
High school graduate	9
Some college	11
College graduate	14
Graduate school	5
<b>Household Income Per Year</b>	
Less than \$20,000	5
\$20,000 to \$39,999	10
\$40,000 to \$59,999	17
\$60,000 to \$79,999	6
\$80,000 to \$99,999	4
\$100,000 and over	2
No response	1
<b>Marital Status and Gender</b>	
Single male	5
Single female	12
Married male	13
Married female	15

Staff planned to have two-thirds of the sample be experienced homebuyers who had bought or refinanced a home in the previous two years. As shown in Table 15, the testing team achieved this exactly. Of those who planned to buy in the next six months, most had gone to open houses and had contacted a real estate agent.

<sup>4</sup> Some participants did not respond to all demographic questions.

# Round 2 Testing

**Table 15. Home-buying Experience of the Round 2 Sample**

Home-buying Experience	Home-buying Experience
Bought or refinanced in the past 2 years	30
Plan to buy in the next 6 months	15
Of those who plan to buy:	
Have gone to open houses	11
Have contacted a real estate agent	10
Have pre-qualified for a mortgage loan	4

## Study Questions

The study questions for Round 2 of testing mirrored those of Round 1:

- ▼ What do participants consider the most useful information on both the GFE and the MPO?
- ▼ What do participants like the most about the GFE and the MPO?
- ▼ What do participants like the least about the GFE and the MPO?
- ▼ How comfortable or uncomfortable are participants with the GFE and the MPO?
- ▼ Do the forms provide the right information for participants?
- ▼ Are the GFE and MPO written at the “right level” for participants?

## Summary of Findings

For both the GFE and the MPO, staff asked participants what they considered the most useful information on the form. This was an open-ended question and some participants did not respond. The percentage of participants who gave a particular response appears in the figures below.

### What do participants consider the most useful information on both the GFE and the MPO?

#### What do participants consider the most useful information on the GFE?

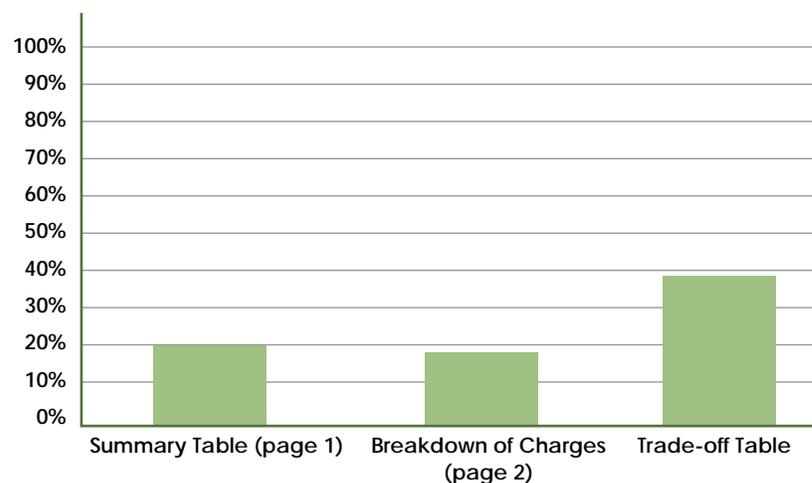
In both Round 1 and Round 2 of testing, participants found the most useful types of information to be facts about the money they would have to pay or options about the amount that they would have to pay. They were able to use the form to identify key information that would help them in making decisions—the costs they can expect and ways to manipulate those costs to their own benefit.

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

# Round 2 Testing

In Round 1, participants thought the most useful information on the GFE was the summary table giving the loan terms (page 1) and the breakdown of charges (page 2). During this round, the trade-off table confused some participants and few mentioned it in their comments. In Round 2, the largest percentage of participants commented that they found the trade-off table to be the most useful (Figure 10). Some also mentioned the summary table. The breakdown of the charges on page 2 moved into third place.

**Figure 10. Participants' Perception of the Most Useful Information on the GFE—Round 2**



The information in the trade-off table appears to be very important to many participants. The summary table and the breakdown of charges on page 2 continued to be important to the participants who worked with the GFE in Round 2.

One participant commented on the trade-off table:

*[The trade-off 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.*  
(Participant 4082)

Another Participant 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.* (Participant 5052)

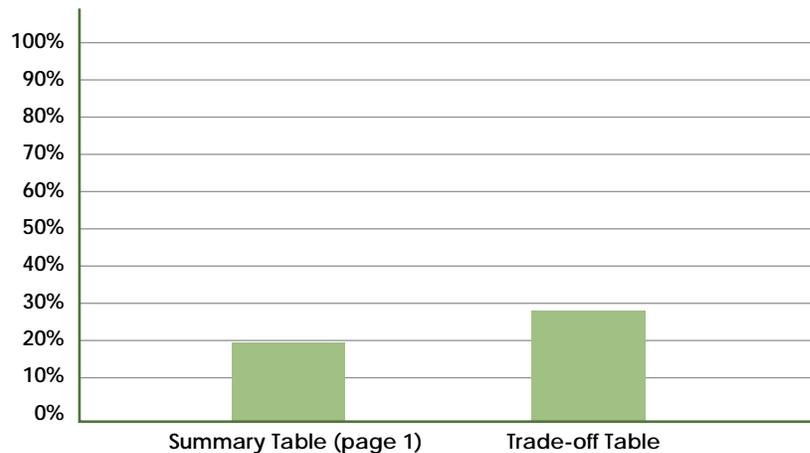
## What do participants consider the most useful information on the MPO?

In testing the MPO, participants 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.

# Round 2 Testing

Participants' responses did not change much in their assessment of what the most useful information was between Rounds 1 and 2. In both rounds, participants 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 participants thought the summary table was the most important in Round 1, while more participants thought the trade-off table was most useful in Round 2 (Figure 11).

**Figure 11. Participants' Perception of the Most Useful Information on the MPO—Round 2**



In Round 2, far more participants responded positively to the trade-off table and to the idea that the form presented them with options. Many participants seemed very happy at the measure of control this table gave them over how their interest rate, settlement charges, and payments would appear. 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 participants commented on the trade-off table specifically:

*The most useful information is the comparison between different interest rates and costs.*  
(Participant 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.* (Participant 4142)

## What do participants like the most about the GFE and the MPO?

Staff asked participants what they liked most about the forms, if anything. They were free to respond in many ways, so the results cover a range of possible responses. Staff grouped the responses in categories. Many of the responses were unique to a given individual and do not appear in reports based on this research.

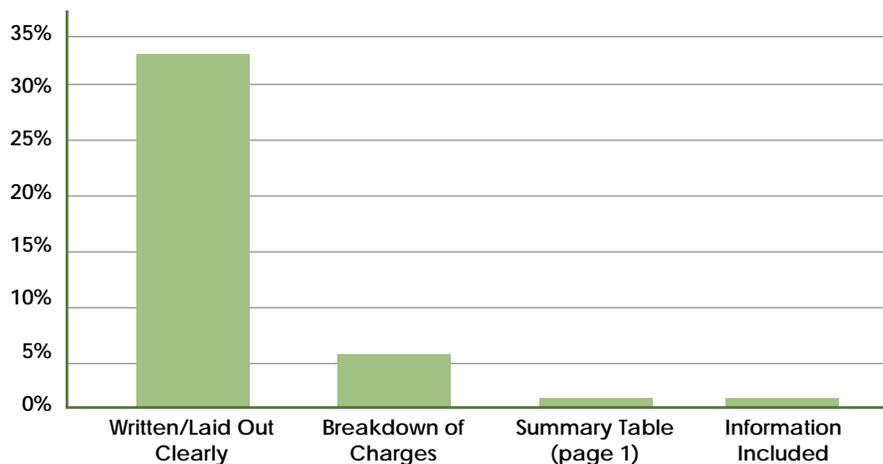
# Round 2 Testing

## What do participants like the most about the GFE?

When commenting on what they liked most, participants identified the same qualities in both Round 1 and Round 2 of testing (again, 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 about the most useful information.

Participants in both rounds of testing reacted strongly to the form’s simple language, clear layout, and clear delineation of charges. They consistently chose those qualities as what they liked most about the GFE. That participants identified these qualities or sections most often as what they liked in both rounds of testing simply reiterates their universal importance and appeal (Figure 12).

**Figure 12. What Participants Liked Most about the GFE—Round 2**



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

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

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

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

Participants 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.* (Participant 5052)

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

*Breaks everything down and lays it out.* (Participant 5142)

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

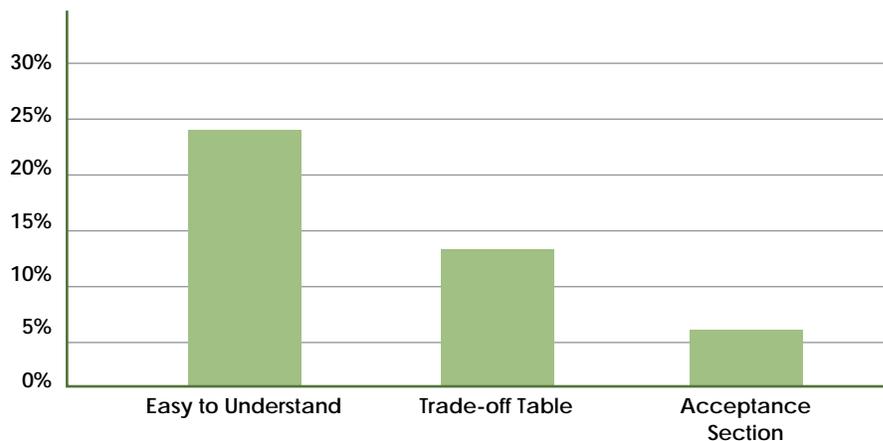
# Round 2 Testing

## What do participants like the most about the MPO?

Participants identified some of the same qualities or sections as they did on the GFE as ones they liked on the MPO, while adding some new ones. In responding to the MPO, participants 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 tradeoff table and acceptance section in Round 2.

In Round 2, the greatest number of participants also identified aspects about the clear writing and layout of the form as what they liked most. In Round 2, participants identified three qualities as those they liked the most about the MPO (Figure 13). KCG revised the section on “Accepting this MPO” between Rounds 1 and 2 in order to make it clearer for participants. This revision seems to have improved the section dramatically. In the first round, many participants were very intimidated by this section; in the second round, a number of participants mentioned it as one of the best parts of the MPO.

**Figure 13. What Participants Liked Most about the MPO—Round 2**



Participants commented on what they liked about the writing and layout of the MPO:

*The simplicity of it all—it’s easy to read and the words it uses are really simple.*  
(Participant 5082)

*Simplicity—there’s not a lot of law jargon. You’ve got room to write things in.*  
(Participant 4022)

*You can flip through the pages easily—I like the single sided pages. It’s easy to read, there’s a good flow.* (Participant 5041)

Participants commented on “Accepting this MPO”:

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

# Round 2 Testing

## What do participants like the least about the GFE and MPO?

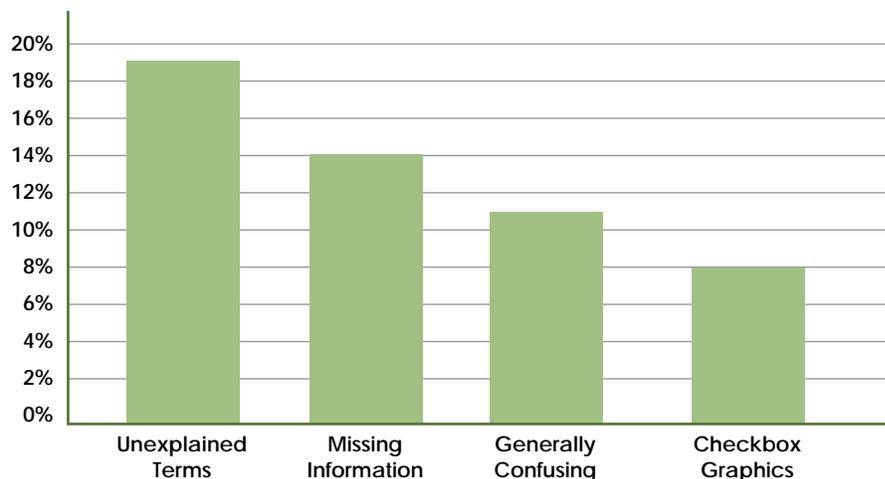
Staff also asked participants what they liked least. Many did not mention anything. For those that did, there were changes between the two rounds.

### What do participants like the least about the GFE?

Between Rounds 1 and 2 of testing, participants were less confused about the GFE and were able to focus on particular aspects of the form. When participants 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 of comprehensive clarity seemed resolved between Rounds 1 and 2, leaving more room for comment on navigational techniques.

In Round 2, the only thing that a number of participants mentioned that they disliked about the form was the references to other sections. Participants' dislikes varied more in Round 2 than in Round 1. When asked what they did not like about the form, more participants said "nothing." Of those who did mention there was something they disliked, only a few actually had similar comments (Figure 14).

**Figure 14. What Participants Liked the Least about the GFE**



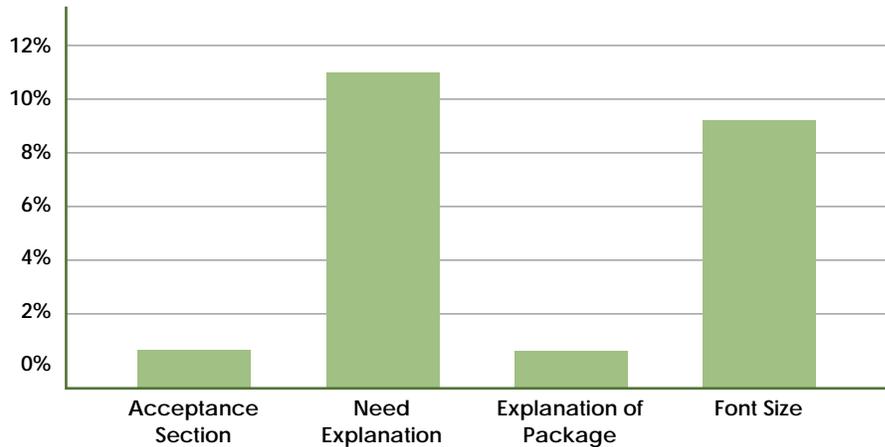
### What do participants like the least about the MPO?

As with the GFE, participants' responses to the MPO in Round 2 varied much more than their responses to the GMPA in Round 1.

In Round 2, some of the issues from Round 1 disappeared. The rewriting of the acceptance section had a large impact on participants' perceptions. In addition, the explanation of what was included in the mortgage package alleviated some of the issues participants had in Round 1. Participants continued to comment that they needed more explanation and that the font used in the form was too small (Figure 15).

# Round 2 Testing

**Figure 15. What Participants Liked the Least about the MPO**



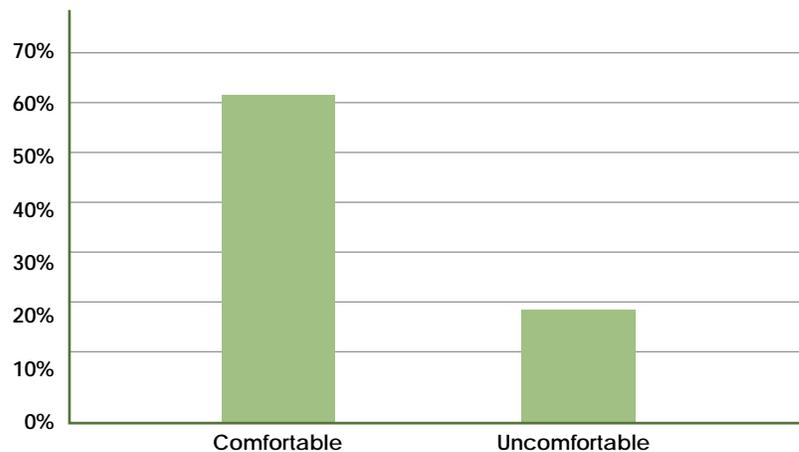
## How comfortable or uncomfortable are participants with the GFE and the MPO?

Staff asked participants how comfortable or uncomfortable they were with the form after completing many of the other questions. Staff tried to get participants to choose one characterization or the other, but if they remained undecided, staff recorded their response as neutral.

### How comfortable or uncomfortable are participants with the GFE?

For the GFE there was little change in the results between Round 1 and 2. While the percentage of participants 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. More participants 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 16).

**Figure 16. Participants' Comfort Level with the GFE—Round 2**

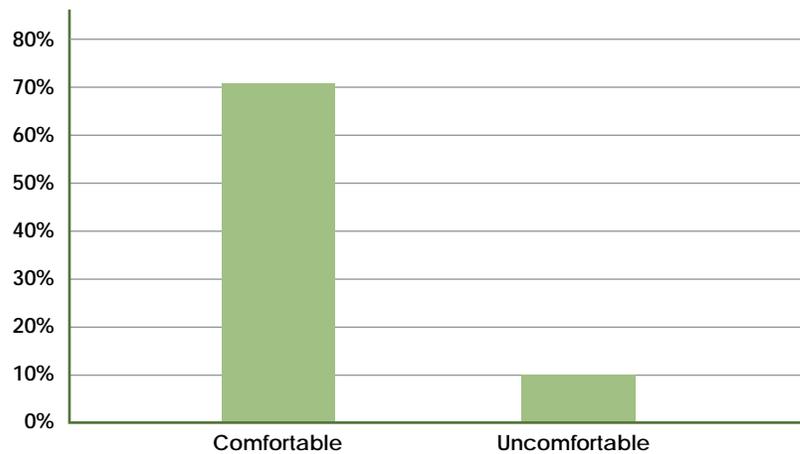


# Round 2 Testing

## How comfortable or uncomfortable are participants with the MPO?

For the MPO, the percentage of participants who were comfortable with the forms increased between Rounds 1 and 2, while the percentage of participants who were uncomfortable fell considerably between the two rounds (Figure 17).

**Figure 17. Participants' Comfort Level with the MPO—Round 2**



KCG made many changes in the GMPA/MPO between rounds, and these changes clearly affected the participant reaction. During the first round, participants unfavorably compared the GMPA to the GFE. For the second round, a higher percentage of participants were uncomfortable with the GFE rather than the MPO. The changes on the MPO, made between Rounds 1 and 2, clarified specific questions participants had about the package, such as how to accept it, and what services are included in it. These changes seem to have reduced the number of participants who were “uncomfortable” with the form.

## Do the forms provide the “right information” for participants?

Staff asked a general question about whether participants 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.

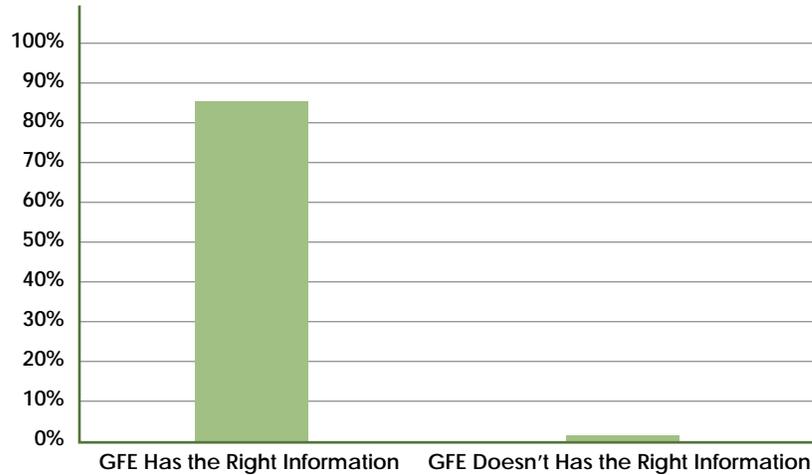
### Does the GFE provide the right information?

The percentage of participants who thought the form provided the right information for them was high in Round 1 —70 percent (Figure 18). This percentage was even higher for Round 2—86 percent thought that the GFE had the right information for them.

This change—participants thinking the form had the right information rising and 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. KCG did not drastically alter the content of the GFE between the two rounds but did change the presentation of information and the form’s navigational elements to help participants find the information they wanted.

# Round 2 Testing

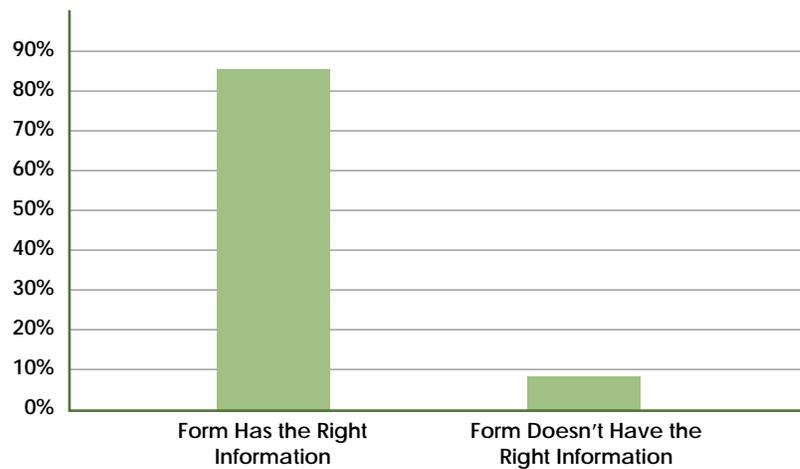
**Figure 18. Percent of Participants Who Think the GFE Has the Right Information**



## Does the MPO provide the right information?

Like the GFE, participants' perceptions of the information that the MPO provided improved considerably between Round 1 and Round 2. The percent of participants who thought the information was right increased; the number of those who thought it was not, decreased. KCG changed the content of the GMPA/MPO more between Round 1 and Round 2 than the GFE, so this improvement represents both content and navigational changes (Figure 19).

**Figure 19. Percent of Participants Who Think the MPO Has the Right Information**



# Round 2 Testing

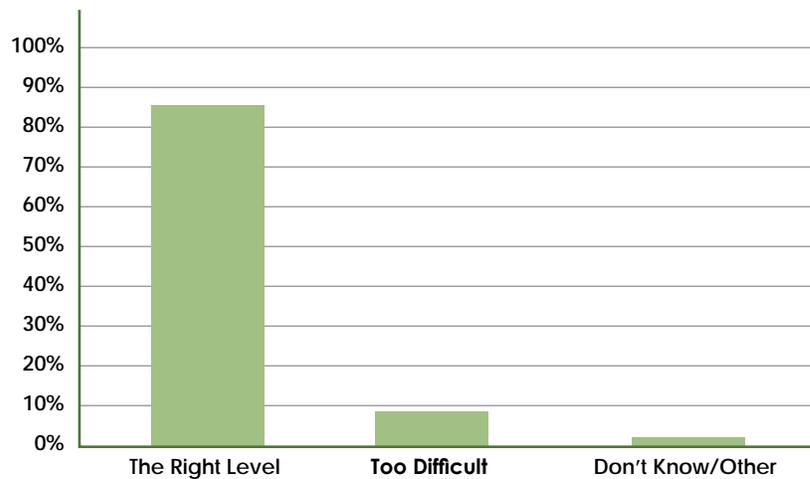
## Are the GFE and the MPO written at the “right level” for participants?

Staff asked participants whether they thought that the writing of the forms was at the right level for them. If they said it was not at the right level, staff noted whether they thought it was too basic or too difficult. None of the participants felt the forms were too basic.

### Is the GFE written at the “right level”?

In both rounds, a high percentage of the participants felt that the documents were written at the right level for them (Figure 20). Between Rounds 1 and 2, the percentage of participants who thought the writing of the form was 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 20. Participants' Ratings of the Level of Writing in the GFE**

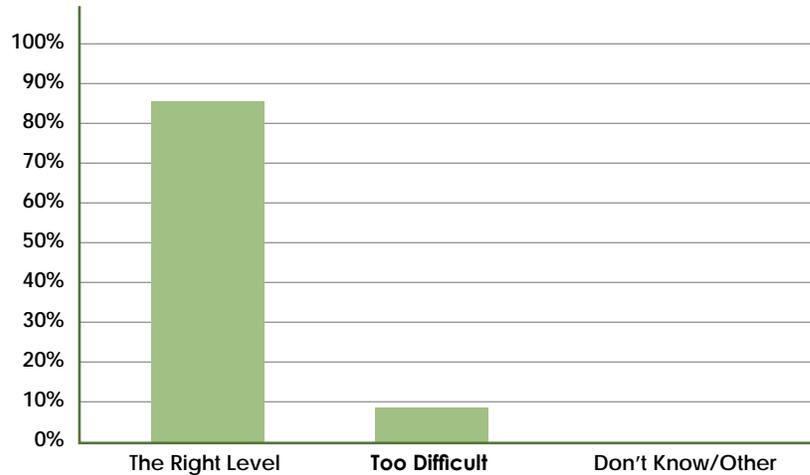


### Is the MPO written at the “right level”?

The results for the MPO were similar to the GFE. In both rounds, high percentages of the participants felt the forms were written at the right level for them (Figure 21). The percentage of participants who thought the form’s writing was 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.

# Round 2 Testing

**Figure 21. Participants' Ratings of the Level of Writing on the GMPA/MPO**



## Recap of HUD's Goals

After the second round of testing, KCG reviewed HUD's Round 2 testing goals to see if the second round of testing met HUD's goals.

- ✓ **Facilitating shopping for mortgages**
  - Almost all homebuyers said they would shop.
  - Almost all homebuyers can find the lowest estimate among two GFEs and one MPO.
  
- ✗ **Distinguishing items homebuyers can shop for**
  - In Round 2, 67 percent of participants were able to identify the difference between items 3 and 5 on the GFE (i.e., consumers can shop for those in item 5). This represented an increase of five percent between Rounds 1 and 2.
  
- ✓ **Making basic costs clear**
  - 100 percent were able to identify the correct interest rate (an improvement of 7 percentage points between Rounds 1 and 2).
  - 100 percent were able to identify the correct monthly payment (an improvement of 5 percentage points between Rounds 1 and 2).
  - 97 percent were able to identify the estimate of the total settlement charges in the GFE (an improvement of 6 percentage points between Rounds 1 and 2).
  - 93 percent were able to identify the estimate of the total settlement charges in the MPO (an improvement of 3 percentage point between Rounds 1 and 2).

# Round 2 Testing

- ✓ **Showing yield spread premium (YSP) and discounts to borrowers**
  - Participants in Round 2 had fewer problems with the YSP section. Staff observed a 10 percent increase in comprehension with respect to the YSP, and fewer participants had problems understanding the table.
  - Participants in Round 2 also had fewer problems defining “adjusted origination charge.” Staff observed a 24 percent increase in participants’ ability to define “adjusted origination charge” correctly.
  
- ✓ **Making tolerances to HUD-1 clear**
  - 70 percent of participants were able to identify all tolerances correctly.
  - 76 percent of participants were able to identify that the guaranteed mortgage package price could rise more than 10 percent between the estimated and actual settlement costs.
  - 86 percent of participants were able to identify that daily interest charges could rise more than 10 percent between the estimated and actual settlement costs.
  - 83 percent of participants were able to identify that homeowner’s insurance charges could rise more than 10 percent between the estimated and actual settlement costs.
  - 83 percent of participants were able to identify that optional owner’s title insurance could rise more than 10 percent between the estimated and actual settlement costs.
  - 86 percent of participants were able to identify that reserves or escrow could not change more than 10 percent between the estimated and actual settlement costs.
  
- ✓ **Conveying prepayment penalties and balloon payments**
  - 97 percent of participants correctly identified whether the loan had a pre-payment penalty; this represented an improvement of 6 percentage points between Rounds 1 and 2.
  - 90 percent of participants correctly identified whether the loan had a balloon payment; this was 3 percentage points lower than in Round 1.
  
- ✗ **Providing a Crosswalk for the estimates from the GFE and MPO to the HUD-1**
  - Participants had mixed success in identifying charges that could not change, charges that could change but not more than 10 percent, and charges that could change more than 10 percent.

# Round 2 Testing

## Recommendations for Improving the Forms

After Round 2 of testing, KCG made the following recommendations for improving the forms for the third round of testing.

### Recommendations for GFE Revision

#### About Your GFE

- ▼ Add contact information for the broker or lender.
- ▼ Add wording telling the potential buyer to call with questions.

#### Summary of Your Loan Terms for This Estimate

- ▼ Consider moving text to bottom of the first table.

#### Understand Which Charges Can Change at Settlement

- ▼ Include more explanation of items that can appear in more than one column.
- ▼ Emphasize the part of the explanation that shows what is different about the items that repeat.

#### Last Page of the GFE

- ▼ Reorder the sections on that page:
  1. Understanding some of the charges.
  2. Understanding which charges can change.
  3. Understanding the trade-offs.

### Recommendations for MPO Revision

#### About Your MPO

- ▼ Add contact information for the broker or lender.
- ▼ Add wording telling the potential buyer to call with questions.

#### Understanding Your Settlement Charges

- ▼ Add some additional wording about the package not changing from this estimate.
- ▼ Consider changing the visual appearance to make the lack of individual pricing clearer for the package.

# Round 2 Testing

## Recommendations for the Crosswalk

- ▼ Report the tolerance table from the GFE.
- ▼ Add further explanation about the charges that can appear in more than one section.
- ▼ Have subtotals for each of the three sections and visually emphasize the totals.
- ▼ Develop a method to help homebuyers distinguish between lender and third-party services.
- ▼ Make clearer to the homebuyer that they should start with the GFE numbers and then use that information to help them find the charges on the HUD-1.
- ▼ Consider whether some changes could be made in the HUD-1 to facilitate the Crosswalk.

## How the Forms Changed

### GFE

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

Problem	Change Made to the GFE
Many participants 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 participants was “third party.”	We eliminated this reference wherever it appeared.
Although the tolerance information worked much better during the second round of testing, participants 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.
Two of the tables on the third page of the GFE refer to charges on the second page. Participants 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.

A sample of forms tested in Round 3 appears in Appendix C.

# Round 2 Testing

## MPO

During the second round of testing, the MPO received much more favorable results and ratings than the GMPA had received. For the final revisions, KCG made one of the changes also made for the GFE: that is, adding a line to the introductory section in order to add a contact number. In addition, KCG made a few other changes, which were unique to the MPO:

Problem	Change Made to the GFE
Some participants 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 indicate more clearly that there are no charges shown for each category.
Participants generally understood the last section of the form that described what to do when accepting the package. However, some participants 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.

# Round 2 Testing

## Crosswalk

Staff tested the Crosswalk from the GFE to the HUD-1 for the first time in Round 2. The Crosswalk from the MPO to the HUD-1 did not undergo testing.

Problem	Change Made to the GFE
Participants 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. Participants tended to enter the same information many times, which ended with an incorrect sum.	We developed an initial table for participants 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.
Participants 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 participants see the totals more clearly. We used the same device that had been successful on the GFE.
Participants 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 fixed easily without changing the HUD-1.
Participants 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 participants 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 participants 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.



# Good Faith Estimate of Settlement Costs (GFE)

## About Your GFE

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

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

This loan is being offered by \_\_\_\_\_

Please call us with any questions at \_\_\_\_\_

Your name \_\_\_\_\_ SSN \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

This loan is for property at this address \_\_\_\_\_

This GFE is valid for 10 business days from this date \_\_\_\_\_

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

Added line for contact information

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

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

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

### Your Settlement Costs

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

**Understanding  
Your  
Estimated  
Settlement  
Charges**

**Your Estimated Settlement Charges**

<b>1. Our service charge</b> This charge is for the services we provide when we process this loan for you.		
<b>2. Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services.		
<i>Service</i>	<i>Cost</i>	
<b>3. Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.		
<b>4. Required services that you can shop for</b> 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.		
<i>Service</i>	<i>Cost</i>	
<b>5. Taxes and fees</b> This charge includes state and local taxes and fees.		
<b>6. Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.		
<b>7. Daily interest charges</b> 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 ___/___/___).		
<b>8. Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.		
<b>9. Optional owner's title insurance</b> This charge is for insurance you can choose to buy to protect yourself from title defects.		
<b>Total Estimated Settlement Charges</b>		<b>\$</b>

**Charges That Can Change**

Added additional information and improved layout of tolerances

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

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

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

**These charges can change at settlement:**

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

**Discount Points**

Tables relocated to page 3 so they would be clearer

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

**Yield Spread Premium**

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

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

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

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

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

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

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

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



# Mortgage Package Offer (MPO)

## About Your MPO

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

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

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

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

This loan is being offered by \_\_\_\_\_

Please call us with any questions at \_\_\_\_\_

Your name \_\_\_\_\_ SSN \_\_\_\_\_

This loan is for property at this address \_\_\_\_\_

This MPO is valid for 10 business days from this date \_\_\_\_\_

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

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

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

### Your Settlement Costs

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

**Understanding  
Your  
Estimated  
Settlement  
Charges**

**Your Estimated Settlement Charges**

<p><b>1. Our service charge</b> This charge is for the services we provide when we process this loan for you.</p>										
<p><b>2. Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services.</p> <table border="1"> <thead> <tr> <th>Service</th> <th>Cost</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>		Service	Cost							
Service	Cost									
<p><b>3. Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.</p>										
<p><b>4. Required services that you can shop for</b> 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.</p> <table border="1"> <thead> <tr> <th>Service</th> <th>Cost</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>		Service	Cost							
Service	Cost									
<p><b>5. Taxes and fees</b> This charge includes state and local taxes and fees.</p>										
<p><b>6. Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.</p>										
<p><b>7. Daily interest charges</b> 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 ____/____/____).</p>										
<p><b>8. Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.</p>										
<p><b>9. Optional owner's title insurance</b> This charge is for insurance you can choose to buy to protect yourself from title defects.</p>										
<b>Total Estimated Settlement Charges</b>		<b>\$ _____</b>								

Improved graphic layout of page →

**Charges That Can Change**

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

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

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

**These charges can change at settlement:**

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

**Discount Points**

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

**Yield Spread Premium**

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

**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.

# Round 2 Testing

## Questions for Round 3 Testing

Questions identified for Round 3 of testing included the following:

- ▼ Would consumers go to several different mortgage lenders before choosing one?
- ▼ Do consumers understand that they can shop?
- ▼ Are consumers able to choose the best loan offer?
- ▼ Can consumers identify those items for which they can shop?
- ▼ Are the basic costs on the GFE and MPO clear?
- ▼ Do consumers understand the yield spread premium information?
- ▼ Are consumers able to identify tolerances between the GFE/MPO forms and the HUD-1?
- ▼ Do consumers understand information on penalty payments and balloon payments?
- ▼ Can consumers correctly fill in information from the GFE or MPO on the Crosswalk?
- ▼ Can consumers correctly fill in information from the HUD-1 on the Crosswalk?
- ▼ Can consumers identify discrepancies in cost if the forms are filled in correctly?

# Round 3 Testing

# Round 3 Testing

## Introduction

For the third round of testing, KCG, through a subcontract to Aspen Systems, made changes to the forms based on participants' responses to the forms during the second round of testing as well as in response to comments that HUD had received from various interest groups who would be affected by the forms. The Good Faith Estimate (GFE) and the Mortgage Package Offer (MPO) had significant modifications for the third round. The Crosswalk between the GFE and the HUD-1 and the Crosswalk between the MPO and the HUD-1 also were changed in order to facilitate better consumer understanding.

## HUD's Goals

HUD's Goals for Round 3 remained the same as in Round 2 of testing:

- ▼ Facilitating shopping for mortgages
- ▼ Distinguishing items homebuyers can shop for
- ▼ Making basic costs clear (interest rate, monthly payment, and settlement charges)
- ▼ Showing yield spread premium (YSP) and discounts to borrowers
- ▼ Making tolerances to HUD-1 clear
- ▼ Conveying prepayment penalties and balloon payments
- ▼ Providing a Crosswalk for the estimates from the GFE and MPO to the HUD-1

## Methodology

The testing team used a comprehensive testing protocol that addressed the key issues and questions about the forms. Interviews with each participant lasted for 90 minutes with a 10-minute break. The interviews had two parts: one unstructured, and one structured.

In the **unstructured** portion of the interview, staff asked participants 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 participants' initial reactions—including areas that they responded well to, areas they did not understand, and areas they questioned. Staff captured this valuable information before questioning participants about different elements of the forms, ensuring that the interviewer did not lead participants to discuss information they would not have noticed on their own.

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

# Round 3 Testing

## Testing Conditions

Staff interviewed all participants for 90 minutes. Not all participants received the same materials. Staff tested half of the participants primarily on their ability to work with the GFE and MPO and tested the other half regarding their ability to use the Crosswalks. In cases when participants did receive the same materials, staff varied the order in which the participant received the forms, reasoning that whichever form they saw second might seem clearer to them because they became more familiar with the issues after looking at the first form.

These two considerations resulted in four conditions for the participants (Table 16). The number of participants tested in each condition was 15.

**Table 16. Conditions of Testing for Round 3**

Condition	Materials	Number of Participants Tested
Condition 1	2 GFEs first, MPO second	15
Condition 2	MPO first, 2 GFEs second	15
Condition 3	2 GFEs first, followed by the Crosswalk to the HUD-1	15
Condition 4	2 MPOs first, followed by the Crosswalk to the HUD-1	15

The task descriptions of what the participants saw and did during the testing appear below in Tables 17, 18, 19, and 20.

# Round 3 Testing

**Table 17. Schedule of Testing for Condition 1 in Round 3**

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant 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 completed as an example.
Task 2	20	We ask the participant questions about the sample GFE. We give the participant another GFE to compare.
Break	10	
Task 3	15	The participant receives and reacts to a sample MPO completed as an example.
Task 4	15	We ask the participant questions about the sample MPO and ask the participant to compare the GFEs and the MPO.
<b>Total time</b>	<b>90 minutes</b>	

**Table 18. Schedule of Testing for Condition 2 in Round 3**

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant 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 completed as an example.
Task 2	15	We ask the participant questions about the sample MPO.
Break	10	
Task 3	15	The participant receives and reacts to a sample GFE.
Task 4	20	We ask the participant questions about the sample GFE. We give the participant another GFE to compare. We ask the participant to compare the GFEs and the MPO.
<b>Total time</b>	<b>90 minutes</b>	

# Round 3 Testing

**Table 19. Schedule of Testing for Condition 3 in Round 3**

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant read and sign the confidentiality statement and fill out the questionnaire.
Task 1	15	The participant practices the task of reading and thinking aloud. The participant receives and reacts to a sample GFE. We give the participant another GFE to compare.
Task 2	10	We give the participant the Crosswalk to the HUD-1 and an example HUD-1 that matches the GFE. The participant looks at these while thinking aloud.
Break	10	
Task 3	35	The participant attempts to fill in the Crosswalk from the GFE. After 15 minutes, we give the participant a correctly completed Crosswalk and ask them to fill in the information from the HUD-1 while thinking aloud.
Task 4	5	We ask the participant questions about how the GFE compares with the HUD-1.
<b>Total time</b>	<b>90 minutes</b>	

**Table 20. Schedule of Testing for Condition 4 in Round 3**

Section	Time Allotted (minutes)	Task
Introduction	15	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant read and sign the confidentiality statement and fill out the questionnaire.
Task 1	15	The participant practices the task of reading and thinking aloud. The participant receives and reacts to a sample MPO. We give the participant another MPO to compare.
Task 2	10	We give the participant the Crosswalk to the HUD-I and an example HUD-I that matches the MPO. The participant looks at these while thinking aloud.
Break	10	
Task 3	35	The participant attempts to fill in the Crosswalk from the MPO. After 15 minutes, we give the participant a correctly completed Crosswalk and ask them to fill in the information from the HUD-I while thinking aloud.
Task 4	5	We ask the participant questions about how the MPO compares with the HUD-1.
<b>Total time</b>	<b>90 minutes</b>	

# Round 3 Testing

## Demographic and Test Site Information

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

Staff tested the forms at four geographically dispersed locations that represent diverse settings and populations (Table 21).

**Table 21. Sites for the Testing—Round 3**

Cities	Number of Participants Tested
Los Angeles, CA	15
Wilmington, DE	15
Minneapolis, MN	15
Tulsa, OK	15
<b>Total</b>	<b>60</b>

## Recruiting the Participants

KCG recruited 60 participants across four sites. Each of the facilities was required to use a screener in recruitment efforts. Staff based the screener on the demographics that HUD required for the sample.

# Round 3 Testing

## Eligibility Requirements

The testing team had several criteria for recruiting participants for the sample. First, staff wanted one-third of the sample to be new homebuyers. Second, staff wanted to test the forms with groups that might potentially have more difficulty with the forms due to less experience or other reasons. This includes the following:

- ▼ 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

At each location, KCG recruited 15 participants that met the requirements shown in Table 22.

**Table 22. Recruiting Criteria for the Sample**

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

## Demographics

Table 23 shows the results of the recruiting efforts at each site. Overall, staff achieved adequate representation from each of the groups that HUD wanted to include; however, staff would have preferred more participants with lower educational levels. The sample had good representation of different racial and ethnic groups.

# Round 3 Testing

**Table 23. Demographic Characteristics of the Sample—Round 3**

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

<sup>5</sup> Some participants did not respond to all demographic questions.

# Round 3 Testing

KCG planned to have two-thirds of the sample be experienced homebuyers who had bought or refinanced a home in the previous two years, but three-fourths of the sample were in this category—as is shown in Table 24. One of the sites misinterpreted the instructions, thinking that a person could fulfill the requirement of wanting to buy in the next six months even though they had bought or refinanced in the past two years. Of those who planned to buy in the next six months, all but one had gone to open houses and had contacted a real estate agent.

**Table 24. Home-Buying Experience of the Sample**

Home-buying Experience	Home-buying Experience	Percent
Bought or refinanced in the past 2 years	30	76
Plan to Buy in Next 6 Months	14	24
Of those who plan to buy:		
Have gone to open houses	13	93
Have contacted a real estate agent	13	93
Have pre-qualified for a mortgage loan	6	43
Did not meet criteria	1	--
<b>N</b>	<b>60</b>	<b>100</b>

## Study Questions

Study questions for Round 3 of testing included the following:

- ▼ Would consumers go to several different mortgage lenders before choosing one before seeing the forms?
- ▼ Do consumers understand that they can shop?
- ▼ Are consumers able to choose the best loan offer?
- ▼ Can consumers identify those items for which they can shop?
- ▼ Are the basic costs on the GFE and MPO clear?
- ▼ Do consumers understand the yield spread premium (YSP) information?
- ▼ Are consumers able to identify tolerances between the GFE/MPO forms and the HUD-1?
- ▼ Do consumers understand information on penalty payments and balloon payments?
- ▼ Can consumers correctly fill in information from the GFE or MPO on the Crosswalk?
- ▼ Can consumers correctly fill in information from the HUD-1 on the Crosswalk?
- ▼ Can consumers identify discrepancies in cost if the forms are filled in correctly?

# Round 3 Testing

## Summary of Findings

This section presents the results of issues from Round 3 testing, organized first by the form tested and then within each form, the results appear by section within the forms.

### Good Faith Estimate (GFE)

#### About Your GFE

Participants understood the “About Your GFE” section of the GFE. Participants in conditions 1 and 3 read or skimmed the “About Your GFE” section. Most of the participants had no problems with the section and understood the overall purpose as well as the detail of this section.

#### Summary of Your Loan Terms for This Estimate

All 30 participants in conditional 1 through 3 read or scanned the “Summary of Your Loan Terms for This Estimate” section. A few participants had some problems with some of the terms used in this section, including the terms “balloon payment,” “prepayment penalty,” and “rate lock period.” Seven percent of the participants who viewed the GFE noted difficulty with the term “balloon payment,” while 4 percent expressed difficulty with the term “prepayment penalty.” Another 4 percent had difficulty with the term “rate lock period.”

Staff asked participants if they thought the interest rate would vary over the term of the loan to assess if participants understood that the GFE example was for a fixed-price loan, and what that meant. Table 25 illustrates that most participants in conditional 1 and 2 (77 percent) were able to understand that the offer was for a fixed-price loan, which would not vary over the term of the loan. This finding has been consistent across the three rounds of testing.

**Table 25. Fixed vs. Adjustable Rate Mortgage(Conditions 1 and 2)**

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

A new item included in the summary table was the rate lock period. Staff asked participants how much time they have between the time they lock in the interest rate and when they must go to settlement. The correct answer was 60 days, and Table 26 shows that most participants (83 percent) answered correctly.

# Round 3 Testing

**Table 26. Rate Lock Period**

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

## Understanding Your Estimated Settlement Charges

In general, few of the 30 participants (Conditions 1 and 2) had difficulty with the second page of the form, which lists the settlement charges. The items that caused more difficulty were “2. required services that we select,” “4. required services that you select,” and “7. daily interest charges.” Section 2, “required services that we select,” confused almost one-fifth (18 percent) of the participants (with many of the participants confused by the example rather than the category). Forty-three percent of participants who encountered problems with this section were unfamiliar with the term “survey.”

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

Additionally, 16 percent of participants were confused by section 7, “daily interest charges.” Participants appeared to have a difficult time grasping the concept of daily interest charges for a mortgage loan.

Staff asked participants if they were to close on a different date, if the total amount listed for the interest charges would change. Participants in this subsample tended to understand that the amount would change but had trouble determining if the amount would increase or decrease. Table 27 shows that about 70 percent (Conditions 1 and 2) were able to answer correctly that the interest charges would change. This was an increase in performance from Round 2. Participants had a more difficult time answering the next question about whether the amount would rise or fall. A correct answer was that it would rise. Only 41 percent of participants answered correctly. This percentage was very similar to Round 2.

# Round 3 Testing

**Table 27. Per Diem Interest Charges on the GFE**

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

## Charges That Can Change

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

## Discount Points and Yield Spread Premium

The testing team asked subsample participants to paraphrase, in their own words, the intended message in the discount points and YSP sections. We allowed participants to read this section during the think-aloud portion of the testing and then again during direct questioning. The percentage of participants (Conditions 1 and 2) who fully understood YSP, at 3 percent, was extremely low (Table 28). In general, participants found it very difficult to understand these two sections. They did not understand how these two sections relate to the other settlement charges.

# Round 3 Testing

**Table 28. Discount Points and Yield Spread Premium Comprehension**

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

## Understanding the Trade-off

Most participants understood the section on “Understanding the Trade-off Between the Charges for Your Loan and the Interest Rate,” although some participants had trouble with the concept presented. Of the participants that viewed the GFE, 32 participants (Conditions 1 and 2) had no problems with the “Understanding the Trade-off Between the Charges for Your Loan and Interest Rate” section, and three participants skipped this section altogether. Six participants had major problems with this section. Several thought this section was showing them other loans that were available to them; others were unfamiliar with the term “settlement charges”; and some were unable to understand the inverse relationship between closing cost and monthly interest charges.

Staff asked participants if they paid more money in cash at settlement, would the monthly payment go up or down. A correct answer was that the payment would go down. Eighty-six percent of participants were able to answer this question correctly; this was down slightly from Round 2.

**Table 29. Understanding the Trade-off Table**

Question	Percent
If you pay more money in cash at settlement, would your monthly payment go up or down?	
Correct (go down)	86
Incorrect (go up)	14
Incorrect (stay the same)	—
Don't know	—
Other	—
<b>N</b>	<b>100 (n = 29)</b>

# Round 3 Testing

## Overall Comments on the GFE

Near the end of each testing session for conditions 1 and 2, participants were asked direct questions about their overall feelings about the form, their likes and dislikes, and were given a chance to make suggestions about the GFE.

### Overall Feelings

**Most participants felt comfortable with the GFE form.** Staff asked participants how comfortable or uncomfortable they felt with the GFE form. In Round 3 testing, 74 percent said they felt “comfortable”; while 26 percent said they felt “uncomfortable.” The percentage indicating they felt comfortable was up from Round 2 testing.

**Most participants thought the GFE provided the right information for them.** When staff asked participants if they thought the GFE form provided the right information for them, and the majority of participants (89 percent) said the form provided the right information; only 12 percent said either they did not think the form provided the right information or they did not know.

**Most participants thought the writing of the GFE was at the correct level for them.** Staff asked participants if they felt the writing of the GFE was at the right level for them, and most participants (88 percent) said they felt the writing of the GFE was at the right level, while 13 percent said it was too difficult.

### Likes and Dislikes

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

▼ **Participants liked the clear lay out of the form the most.** When staff asked

participants to name what they liked most about the GFE, 31 percent said the layout was clear, while 17 percent said the breakdown of charges on page 2.

▼ **Participants did not like the section on “yield spread premium.”** Comparatively, staff also asked participants what they disliked the most about the form. About a fifth (21 percent) indicated they disliked the section on “yield spread premium,” while 9 percent said the “discount points” section, and 6 percent said the “charges that can change” section.

### Suggestions

**Participants suggested clarifying the “yield spread premium.”** In Round 3 testing, 16 percent of the participants suggested clarifying the term “yield spread premium,” and 9 percent suggested clarifying “discount points.”

# Round 3 Testing

## Mortgage Package Offer (MPO)

### About Your MPO

- ▼ Thirty participants worked with the MPO (Conditions 2 and 4). Most of the participants that read or skimmed this section had no problems with it. Some participants (4) indicated that they liked that this section made it clear that better offers might be available through other banks. One participant misread the text and believed that it meant that the MPO guaranteed the lowest-cost loan.

### Summary of Your Loan Terms for This Estimate

- ▼ This section is the same as on the GFE. Generally, participants understood this section well, as is discussed under the GFE results. Some participants had trouble with some of the terms used, particularly the terms “balloon payment,” “prepayment penalty,” and “rate lock period.”
- ▼ Some participants (Conditions 1 and 2) had trouble understanding that the “charge or credit for your points” would be included in their total settlement charges. Only 63 percent were able to answer correctly the question relating to this part during the testing (Table 30).

**Table 30. Charge or Credit for Your Points Included In Settlement Charges on the MPO**

Question	Percent
A charge is listed as “Charge or Credit for Your Points.” Is this charge included in your total charges at settlement?	
Correct (yes)	63
Incorrect (no)	20
Don’t know	13
Other	3
<b>N</b>	<b>100 (30)</b>

### Understanding Your Settlement Charges

- ▼ Most participants (28) had no major problems with the “Understanding Your Settlement Charges” section, but some participants had trouble with the concept related to the “Charge or Credit for Your Points” section because of the negative sign. Some participants (9) commented that they wanted the charges itemized or preferred the breakdowns on the GFE.
- ▼ Some participants (8) had trouble with concepts related to the “Charge or Credit for Your Points” section. Of these, six said the negative \$2,250 figure confused them, while five of the eight indicated they were unclear as to whether this figure represented a charge or credit.

# Round 3 Testing

## Charges That Can Change

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

## Services That May Be in the Package

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

## Understanding the Trade-off

- ▼ This section is the same as on the GFE, and the same results apply. Most participants understood this section.

## Accepting This Mortgage Package Offer

- ▼ Many participants (18) found this section to be the most confusing section of the MPO and had a number of different problems with it, including confusion over the fee, the deadlines, the calculation box, and the negative sign in the “charge or credit for your points” section. Only 22 participants did not have any problems with this section. Some (6) participants skipped this or read very little of this section. Four participants did not understand what the fee was for, and wondered whether it was in addition to other charges, or whether they would lose it if they did not accept the offer. Two participants did not understand the significance of the 5-day deadline or thought they only had five days to accept the offer. Four participants did not use the calculation box to help them calculate settlement charges for payment of points. Three participants said the minus sign in the “charge or credit for your points” confused them and were thus unsure how to interpret it.
- ▼ Staff asked participants if they thought they could accept the terms of the MPO without locking in the interest rate (Table 31). Only half (50 percent) of the participants were able to answer this correctly, which was down significantly from Round 2. It is possible that some participants misinterpreted this question, thinking it was an opinion question rather than a factual question based on the information in the section.
- ▼ In addition, staff also asked participants how long they have to think over the terms of the MPO. Again, participants did not answer correctly very often (only 13 percent answered correctly), and this was down significantly from Round 2. The dates should be clearer so homebuyers can pick out this information easily. The dates were clearer on earlier versions of the MPO.

# Round 3 Testing

**Table 31. Accepting the Offer on the MPO**

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

When staff asked participants in this subsample until when they have to lock in the interest rate, most were able to answer correctly (Table 32).

**Table 32. Locking in the Offer on the MPO**

Question	Percent
If you do not lock in your Interest rate now, by when must you lock in the rate?	
Correct (5 days before settlement)	70
Incorrect	10
Don't know	7
Other	13
	<b>100 (30)</b>

Staff included a new box at the end of the acceptance section for participants to calculate what the charge or credit for their points would be if the interest rate changed. When staff asked participants a question about what the points would be if a homebuyer were charged one and a half points on the loan, most could not answer correctly (Table 33).

# Round 3 Testing

**Table 33. Calculating the Charge or Credit for Points on the MPO**

Question	Percent
What would your new charge or credit for your points be if you were now charged one and a half (1.5) points?	
Correct (\$1500) <sup>6</sup>	20
Incorrect	13
Don't know	43
Other	23
<b>N</b>	<b>100 (30)</b>

An important goal for HUD is for homebuyers to understand that receiving an MPO does not mean that they received approval for their mortgage application. Staff asked a question during the interview about whether the mortgage application would receive approval just because a person accepted the MPO. Table 34 illustrates that 80 percent of participants understood that the MPO would require information verification.

**Table 34. Accepting the Offer and Approving the Application on the MPO**

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

<sup>6</sup> Of the 6 participants that got the right answer, only one used the box on the page.

# Round 3 Testing

## Overall Comments on the MPO

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

### Overall Feelings

- ▼ **Many participants said they were comfortable with the MPO, but the percentage of people feeling comfortable decreased from Round 2.** Staff asked participants how comfortable or uncomfortable they felt with the MPO. In Round 3 testing, 64 percent said they were “comfortable,” which was a decrease from Round 2. About 35 percent said they were “uncomfortable,” or said they did not know or provided a different answer.
- ▼ **Most participants said they thought the MPO provides the right information for them.** Staff asked participants if they thought the MPO provides the right information for them, and the majority of participants (79 percent) said they thought the form provided the right information, while 22 percent said either they did not think the form provided the right information or that they did not know or gave another answer. The positive response to the form providing the right information was down slightly from Round 2.
- ▼ **Most participants felt the writing of the MPO was at the right level for them.** Staff asked participants if they felt the writing of the MPO was at the right level for them, and most participants (88 percent) said they felt the writing of the MPO was at the right level, while only 13 percent said it was too difficult. Results were very similar between Round 2 and Round 3 of testing.

### Likes and Dislikes

- ▼ **Participants said they found the “Understanding Your Settlement Charges” section (on page 2) and the loan summary information (on page 1) to be the most useful information on the form.** Staff also asked participants what they found to be the most useful information in the MPO. A third of the participants said the “Understanding Your Settlement Charges” section (on page 2), while a third said the loan summary (on page 1), and 18 percent said the section on accepting this mortgage package offer (on page 3).
- ▼ **Most participants liked the breakdown of charges on page 2 the best.** When staff asked participants to name what they liked most about the MPO, 38 percent mentioned the breakdown of charges on page 2, while 26 percent said the summary table on page 1. Another 26 percent indicated they liked the trade-off table the most, and 15 percent said what they liked most was that the form was “easy to understand,” and “self-explanatory.”
- ▼ **Most participants did not mention something that they particularly disliked about the form.** When staff asked participants what they disliked the most about the MPO, they mentioned only a few things. About 12 percent indicated they disliked not knowing what is included in the package, while 9 percent mentioned understanding the tradeoff section, and 6 percent said the services included in the package section.

# Round 3 Testing

## Suggestions

- ▼ **A few participants suggested clarifying certain sections of the form.** In Round 3 testing, 9 percent of the participants suggested clarifying the “points section”; 3 percent said clarifying the “tradeoff section”; and 3 percent said the form needed a more detailed breakdown of charges.

## GFE Crosswalk

In general, the GFE Crosswalk confused many participants, and as such, they were not able to complete it correctly.

### Section 1

- ▼ Participants found the information presentation overwhelming. Two participants had problems with the presentation of the information in Section 1, which covered “What is the purpose of this worksheet” and “How should you use the worksheet.” These participants commented that the Crosswalk had “too much” information and “looked like a tax form.”

### Table 1

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

## Helpful Hints

- ▼ Participants were confused about the “Helpful Hints” section of the form. Some participants did not read the helpful hints and then made the mistakes that the hints were trying to help them avoid. For the participants who were generally confused about the Crosswalk, the “Helpful Hints” section did not help participants understand items where they experienced confusion. One participant was confused by the series number referred to from the HUD-1 and even guessed that they might be dollar amounts.

# Round 3 Testing

## Table 2

- ▼ Participants were confused about Table 2. Five participants were fundamentally confused about how to use Table 2. They could not remember key points from the GFE; they did not understand that they could choose someone other than the lender for services; they did not understand how to read the charge for a service; or they were otherwise confused.
- ▼ Three participants had trouble finding charges on the HUD-1. They had particular trouble with items in the 800–899 series and item 1199.
- ▼ One participant had trouble with the term “Subtotal” and was not sure whether to calculate a subtotal or enter one from the GFE.

## Table 3

- ▼ Participants had trouble understanding what information to put in the boxes on Table 3. Four participants understood the purpose of the table but had some trouble understanding what figures should go in each box. Three participants were fundamentally confused and either did not understand why charges might change or began to feel overwhelmed by the information.
- ▼ One participant claimed that this table really helped “break things down.”

## Table 4

- ▼ Participants had a number of different issues with Table 4. Two participants commented on the language in this table: one thought the writing was at too high a level and another commented that it sounded “like tax forms.”
- ▼ Two participants could not understand what figures to enter into this table.
- ▼ One participant did not understand the difference between Table 3 and Table 4. One participant was overwhelmed and confused. One participant commented that this table was very clear and noted that the language matched that of the GFE.

# Round 3 Testing

## Recap of HUD's Goals

After the third round of testing, KCG reviewed HUD's Round 3 testing goals to see if the third round of testing met HUD's goals:

### ✓ **Facilitating shopping for mortgages**

- When testing staff asked participants whether they would shop around before they saw either the GFE or the MPO, half said that they would, and half said that they would not.
- When staff asked the same question after participants had looked at the GFE or MPO, 80 percent of the participants said they would shop around. All but one of those who said initially that they would shop around still said they would shop around. However, there was a significant change in attitude for participants who initially said they would not shop around: 66 percent changed their minds after reading the GFE or MPO, stating they would shop around after stating initially they would not. This result indicates that looking at the GFE or MPO influences the attitude of the participants toward shopping around.
- Beginning with the two-way comparisons for the GFE, participants in Round 3 continued to be able to tell which offer was the better deal. In fact, 100 percent of the participants identified the correct GFE when given the choice of two. A smaller percentage would choose this deal, but as previously mentioned, there could be a variety of reasons why they might want to choose a particular offer.
- The results for the two-way comparison of MPOs were not as strong as for the GFE (since no data existed for the MPO from earlier rounds against which to compare). For the MPO, 80 percent picked the best deal.
- When asked to make the three-way comparison between the two GFEs and an MPO, the results for round 3 were even better than for previous rounds. All but one of the participants on Conditions 1 and 2 identified the best deal.

### ✗ **Distinguishing items homebuyers can shop for**

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

### ✓ **Making basic costs clear**

- Participants could identify the basic costs in the third round. Over 90 percent of the participants were able to identify every cost that staff asked them about.

# Round 3 Testing

## **X** Showing yield spread premium (YSP) and discounts to borrowers

- The percentage of participants who fully understood what YSP meant, at 3 percent, was extremely low.
- Participants did slightly better understanding the meaning of “discount points,” yet only 30 percent had a full understanding or had only minor questions.
- When asked what “our service charge meant,” a majority of participants, 70 percent, were able to answer correctly. Nearly one-third of participants did not know what the service charge was.

## **X** Making tolerances to HUD-1 clear

- In Round 3, slightly more than half of the participants were able to answer questions correctly about each of the tolerances for most of the charges on the GFE. This was a significant decrease in performance from Round 2.
- When questioned about which charges should remain the same at settlement as they are on the GFE, only 2 participants (7 percent) clarified that the service charge will remain the same only after the interest rate is locked.
- Forty percent answered the “service charge,” but did not clarify that a person would have to lock in.
- Participants had the most trouble identifying all seven of the charges that can change at settlement (37 percent), but most participants were able to identify at least some of the charges that can change.
- In Round 3 of testing, only some of the participants were able to answer questions correctly about the MPO tolerances. Performance decreased significantly from Round 2. Fifty percent of the participants correctly indicated that the MPO could not increase at settlement. Only 17 percent noted that the “charge or credit for your points” could not increase after locking in the interest rate, while one participant said the “charge or credit for points” but did not mention locking in the interest rate.

## **✓** Conveying prepayment penalties and balloon payments

- The GFE and MPO were both overwhelmingly successful in conveying information about prepayment penalties and balloon payments. In Round 3 of testing, most participants were able to answer questions correctly about whether the loan had a prepayment penalty (87 percent) and whether the loan had a balloon payment (93 percent). Only 14 percent said they did not know or answered incorrectly when asked if the loan has a prepayment penalty. Only six percent answered incorrectly or gave a different answer when asked if the loan had a balloon payment.

# Round 3 Testing

## **X** Providing a Crosswalk from the estimates from the GFE and MPO to the HUD-1 settlement

### ***Can homebuyers correctly fill in the information from the GFE on the Crosswalk?***

- Participants showed wide variation in their success with different parts of the form. Table 1 was particularly confusing for participants. One-third of participants were confused about the fundamental purpose of the table.
- Participants were supposed to enter two items in Table 1 that would then guide them to where to put the items in Tables 2, 3 and 4. Few participants did this correctly. Only 47 percent of the participants put the title insurance figure in the correct place, and only 20 percent put the survey figure in the right place. A third of the participants also put irrelevant items in Table 1.
- The Helpful Hints section proved to be unhelpful for most of the participants and did not help to clarify their confusion.
- Participants also had a lot of trouble filling out the rest of the tables on the GFE Crosswalk, including Tables 2, 3, and 4 predominately because they had a fundamental problem reading and understanding the directions on page 1, the first table, and the helpful hints. The first table should have alerted participants on where to place certain figures based on who arranged for the service. Because most participants did not understand Table 1, participants showed a wide variation in being able to fill out the rest of the tables correctly.
- Participants did relatively better in completing the information in Table 2 compared with the rest of the Crosswalk, but the results were not as good as for Round 2.
- For table 2 in the Crosswalk, a high percentage of participants filled in the items correctly, but some participants were less successful. The items that required participants to fill in Table 1 correctly in order to enter the information in Table 2 tended to be a problem for the participants. If participants did not fill in Table 1 correctly, they missed it in table 2. This was true for the “title services and lender’s title insurance” and the “required services you can shop for.”
- The results for Table 4 of the Crosswalk were similar. Items that required an understanding of Table 1 had a lower percentage of participants filling in Table 4 correctly.

# Round 3 Testing

## ***Can homebuyers correctly fill in the information from the HUD-1 on the Crosswalk?***

- The next task for the participants was to enter the information from the sample HUD-1 on the Crosswalk. As with the GFE, many items were not very easy for participants to complete correctly because they had not understood Table 1.
- Participants had difficulty with the same items previously mentioned from the GFE: those that had to be 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 in different sections of the Crosswalk depending upon the type of charge. Participants could not tell where charges should go based on the label in the HUD-1.
- Filling in Table 2 was successful for some items. Eighty percent of participants correctly completed one item—the loan origination fee. The other fees did not have such high percentages, although the percentages for the lenders fees were higher for Round 3 than for Round 2.
- For the second table in the Crosswalk, few participants filled in very many of the items correctly. Many of the items are difficult to find on the HUD-1, and participants searched for them without success. Overall, the Round 3 results were somewhat better than the Round 2 results but were still not satisfactory.
- The last table in the Crosswalk also had some items that improved somewhat in Round 3 over the results in Round 2. A larger percentage of participants were able to find the title charges and the survey. For some of the other items, such as the interest, hazard insurance and owner's coverage, the results were not as good for Round 3 as for Round 2.

## ***Can homebuyers find a discrepancy in the cost if they filled in the forms correctly?***

- Most participants found the discrepancies, but the accuracy was down from Round 2 on all discrepancies. Testing staff asked participants if any of the items had increased more than allowed. Only 40 percent of participants were able to answer correctly indicating that they were not really using or understanding the Crosswalk in the intended way—as a tool to help them.

# Round 3 Testing

## Recommendations for Improving the Forms

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

### GFE Recommendations

#### About Your GFE

- ▼ Leave in the paragraph about shopping in the “About Your GFE” section.

#### Summary of Your Loan Terms for This Estimate

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

#### Charges That Can Change

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

#### Discount Points and Yield Spread Premium

- ▼ Improve the explanation on “discount points” and “yield spread premium.”

### MPO Recommendations

#### About Your MPO

- ▼ Leave in the paragraph about shopping for the best loan in the “About Your MPO” section.

#### Understanding Your Settlement Charges

- ▼ Make sure that a negative charge or credit for homebuyer’s points can be shown clearly in the “Understanding Your Settlement Charges” section.

#### Charges That Can Change

- ▼ Use the format tested in Round 2 for the “Charges that Can Change” section.

# Round 3 Testing

## Accepting This Mortgage Package Agreement

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

## GFE Crosswalk Recommendations

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

## MPO Crosswalk Recommendations

- ▼ Clarify the use of negative numbers, perhaps by including another hint.
- ▼ Change the boxes and subtotals to prevent consumers from having to enter numbers twice.

# Round 3 Testing

## How the Forms Changed

After Round 3 of testing, HUD removed the MPO and the Crosswalk forms from the next two rounds of testing. Changes to the GFE included the following:

- ▼ Separating the contact information and educational information into two separate sections at the top of page 1
- ▼ Returning summary lines to page 2 (after the “charges for loan origination” and “charges for all other settlement costs” sections)
- ▼ Removing the “discount points” and “yield spread premium” information from page 3
- ▼ Moving the information about tolerances from page 2 to page 3
- ▼ Adding information at the bottom of page 3 on how to proceed with the GFE

Changes to the MPO included:

- ▼ Adding a block for originator and borrower contact information on page 1
- ▼ Creating a new block for general educational information (About Your MPO) on page 1
- ▼ Chunking the information on page 2 into types of charge and adding summary lines for each new chunk of information
- ▼ Simplifying the Charges that Can Change section at the bottom of page 2
- ▼ Including a new section at the bottom of page 2 showing the services included in the MPO
- ▼ Removing the Discount Points section from the top of page 3
- ▼ Removing the YSP section from page 3
- ▼ Moving the trade-off table to the top of page 3
- ▼ Adding a new section to the bottom of page 3 explaining the steps involved in accepting the MPO

A sample of forms tested in Round 4 appears in Appendix D. The revised MPO, which HUD did not test in Round 4 testing, appears after the GFE forms HUD tested in Round 4.



# Good Faith Estimate of Settlement Costs (GFE)

New block created for contact information

Name of Originator Pine Tree Bank Borrower Terry Treeless  
 Phone 888-999-5555 SSN 555-66-8888  
 Address 2700 Land Drive Property Address 123 Fern Lane  
Somewhere, CO 20173 Anywhere, USA 70476

## About Your GFE

Contact information removed from educational information

What is a GFE? This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

How should you use this GFE to shop for the best loan? You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan.

This terms and conditions of this GFE are valid for 10 business days from this date 01/23/04

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:	\$ <u>100,000.00</u>	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	<u>7.5</u> %	% 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	<u>30</u> years	_____ years
Your monthly payment for principal, interest, and any mortgage insurance	\$ <u>699.21</u>	\$ _____ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$ _____
Your rate lock period	<u>60</u> days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	\$ <u>2,000.00</u>
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	\$ <u>3,700.00</u>
<b>Total Estimated Settlement Charges</b>	<b>\$ <u>5,700.00</u></b>

Returned  
YSP disclosures to  
top of page 2

Understanding  
Your  
Estimated  
Settlement  
Charges

**Your Charges for Loan Origination**

1. Our service charge These charges are for the services we provide when we get and process this loan for you.		\$ 2,000.00
2. Your charge or credit for the specific interest rate chosen (Points). <input type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)		—
<b>A</b>	<b>Your Adjusted Origination Charges</b>	<b>\$ 2,000.00</b>

Returned  
summary  
line to page  
design

**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	
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 title agent, for example, and title insurance to protect the lender, if required.		\$ 900.00
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	
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 3/27/04).		\$ 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>B</b>	<b>Your Charges for All Other Settlement Services</b>	<b>\$ 3,700.00</b>

Returned  
summary  
line to page  
design

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

### 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 section, depending upon who chooses the provider of the service.

**These charges *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)

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

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

**These charges *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)
6. Taxes and fees
7. Reserves or escrow
8. Daily interest rate charges
9. Homeowner's insurance
10. Optional owner's title insurance

Tolerances information moved to top of page 3

### 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.

### Proceeding with This Application

If you would like to proceed with this mortgage application, you must pay a fee of \$ **350.00** which will be applied towards your settlement costs.

The interest rate and points on this GFE are available until 1,2404. After that, they float until you lock. You must lock in the interest rate at least **5** days before settlement.

Section added so consumers know how to go forward



# Mortgage Package Offer (MPO)

Added block for contact information

Name of Originator \_\_\_\_\_ Borrower \_\_\_\_\_

Phone \_\_\_\_\_ SSN \_\_\_\_\_

Address \_\_\_\_\_ Property Address \_\_\_\_\_

## About Your MPO

Created new block for the general educational information

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

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

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 terms and conditions of this MPO are valid for 10 business days from this date \_\_\_/\_\_\_/\_\_\_ .

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

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

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

### Your Settlement Costs

Charge for Your Guaranteed Mortgage Package (item 1 on page 2)	_____
Charge or Credit for the Specific Interest Rate Chosen (item 2 on page 2)	_____
Estimated Charges for Settlement Services Outside the Package (items 3-6 on page 2)	_____
<b>Total Estimated Settlement Charges</b>	<b>\$ _____</b>

Understanding Your Settlement Charges

**Charge for Your Guaranteed Mortgage Package**

1. Your guaranteed mortgage package  
 Your guaranteed mortgage package is one fixed price for most of the services that you will need to get your loan. This price cannot change before settlement. This package includes the charges for the following services, if needed:

**Service charge**  
 This charge is for the services we provide when we process this loan for you.

**Other required settlement services**  
 This charge is for certain services we require to complete your settlement, for example, an appraisal, credit report, or survey. We will choose the providers of these services.

**Title services and lender's title insurance**  
 This charge includes the services of a settlement agent, for example, and title insurance to protect the lender, if required.

**Taxes and fees**  
 This charge includes state and local taxes and fees.

	\$
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**Charge or Credit for the Specific Interest Rate Chosen (Points)**

2. 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)

	\$
--	----

**Estimated Charges for Settlement Services Outside the Package**

<p>3. Reserves or escrow                  This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.</p>			
<p>4. Daily interest charges                  This charge is for the daily interest on your loan from the day of your settlement until the first day of the next month or the first day of your normal mortgage payment cycle. For this loan, this amount is \$ _____ per day for _____ days (if your closing date is ____/____/____).</p>			
<p>5. Homeowner's insurance                  This charge is for the insurance you must buy for the property to protect from a loss such as fire.</p>			
<p>6. Optional owner's title insurance                  This charge is for insurance you can choose to buy to protect yourself from title defects.</p>			
<table border="1" style="width: 100%;"> <tr> <td style="width: 80%;"></td> <td style="width: 20%; text-align: right;">\$</td> </tr> </table>		\$	
	\$		

<b>Total Estimated Settlement Charges</b>	<b>\$</b>
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**Charges That Can Change**

All of the charges listed above can change at settlement **except** for the Charge for Your Guaranteed Mortgage Package. The Charge or Credit for the Specific Interest Rate Chosen can change until you lock in your interest rate.

**Services That Will Be in This Package**

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

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

Added new section showing series included in MPO

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

Reorganized page 3 →

	<i>The loan in this MPO</i>	<i>A loan with a lower interest rate</i>	<i>A loan with lower settlement costs</i>
Your loan amount	\$	\$	\$
Your interest rate	%	%	%
How much your monthly payment will be	\$	\$	\$
How much more or less in monthly payments from this 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. We may ask you for more information. Then we will complete the evaluation of your mortgage application. If you are approved, we will provide the mortgage loan and settlement services exactly as we've outlined in this offer.

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

From \_\_\_\_/\_\_\_\_/\_\_\_\_ until \_\_\_\_/\_\_\_\_/\_\_\_\_, the package price is still guaranteed, but the interest rate and points offered will float. The interest rate and points will stop floating when you lock them. You can find current interest rates and points options by going to:

If you do not accept by \_\_\_\_/\_\_\_\_/\_\_\_\_, this offer will expire.

\_\_\_\_\_  
Our Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Your Signature

\_\_\_\_\_  
Date

# Round 3 Testing

## Questions for Round 4 Testing

Study questions used for Round 4 of testing included the following:

- ▼ Which of two offers will cost less, or will they cost the same amount?
- ▼ If shopping for a mortgage loan and these two offers were the only ones available, would the participant prefer one of the offers or are both equally attractive?
- ▼ Why did participants answer the way they did?

# Round 4 Testing

# Round 4 Testing

## Introduction

During the first three rounds of testing, work focused mainly on building and revising the forms to produce a set of forms that would be involved in consumer testing. HUD and KCG, through a subcontract with Aspen Systems, performed this work—driven by the need to simplify both the language and the layout of the GFE and MPO. Data from consumer testing drove future revisions to the forms.

In 2003, the Federal Trade Commission (FTC) performed its own round of consumer testing based on the GFE. The FTC's objective was to study whether the yield spread premium (YSP) disclosure could unfairly bias consumers against mortgage brokers. Thus, FTC extracted sections of the proposed and new GFE, specifically the YSP disclosure, and tested only those sections that the FTC believed might create an unfair bias against mortgage brokers. Because of the lack of context in the FTC study, however, their data suggested that consumers using the extract only would (a) become confused when the YSP was disclosed and (b) become biased against brokers as a result of the disclosures made in the YSP. However, the FTC did not test the whole GFE; it used only an extract, and as such, consumers had no context against which to compare and contrast the YSP information. As a result, the FTC reported a significant bias against brokers, based solely on the extract. Whether this bias applies to the GFE as a whole would depend on testing results for the entire GFE rather than an extract.

Because of the FTC study, HUD directed another round of consumer testing on the GFE (Round 4). In late 2003, HUD directed KCG, through a sub-contract to Aspen Systems, to mirror aspects of the FTC study (such as studying the GFE both with and without the YSP disclosure); however, HUD wanted to keep the YSP in context by testing the entire GFE, rather than just extracted YSP disclosures.

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

Staff then used data collected in Round 4 testing to make improvements to the GFE form. The revised GFE was the basis for another round of consumer testing (Round 5), in which Aspen/KCG collected data to see how well the forms worked because of the consumer-driven changes to the GFE.

# Round 4 Testing

## HUD'S Goals

HUD's goals for Round 4 were to

- ▼ emulate certain aspects of a yield spread premium (YSP) study conducted by the Federal Trade Commission (FTC), and
- ▼ use qualitative and quantitative research to see how improvements to the GFE helped consumers choose lower-cost loans.

The major overall objective was to collect data to see how well the revised forms worked both in structured one-on-one testing and in small group sessions. To this end, in Round 4, three study questions helped to determine how well the forms worked:

- ▼ Which of two offers will cost less, or will they cost the same amount?
- ▼ If shopping for a mortgage loan and these two offers were the only ones available, would the participant prefer one of the offers or are both equally attractive?
- ▼ Why did participants answer the way they did?

## Methodology

In Round 4, KCG tested 600 diverse participants across five sites: Atlanta, Georgia; Boston, Massachusetts; Denver, Colorado; Seattle, Washington; and Tulsa, Oklahoma.

For this round of testing, staff tested four form variations:

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

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

## Analytical Approach

### Database

Answer sheet responses were entered into a Microsoft Access<sup>®</sup> database. After entering all of the data into the database, staff purged outliers by conducting a quality assurance check on the integrity of the data. Aspen staff entered answer sheet responses into a MS Access<sup>®</sup> database. After Aspen staff entered all of the data into the database, they reviewed the data by conducting a quality assurance check. The Aspen/KCG team then generated reports and analyzed the quantitative data by exporting the data from MS Access<sup>®</sup> into SPSS<sup>®</sup>. The Aspen/KCG team then used SPSS<sup>®</sup> to calculate response frequencies for all questions, with the exception of the qualitative open-ended questions.

# Round 4 Testing

## Qualitative and Quantitative Analysis

After purging outliers from the data, staff exported the data from Microsoft Access® into SPSS®, where response frequencies were calculated for all of the questions, with the exception of the open-ended questions.

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

## Study Methodology

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

Both Aspen Systems and KCG staff filled key positions within the testing team. At each testing site, an Aspen team member served as test moderator while a KCG team member observed the testing sessions. At the end of each day of testing, Aspen/KCG staff sent participant answer sheets to Aspen Systems for data entry.

In Round 4, Aspen/KCG gave all 600 participants full-length GFEs. The control group—285 participants—received GFEs that omitted YSP disclosure, while the experimental group—315 participants—received GFEs with the YSP disclosed. Staff gave each participant two pairs of loans: one in which the broker loan was \$300 less than the lender and one in which the broker and lender loan offers were the same cost. Staff asked each participant three questions for each set of GFEs:

1. Which offer was cheaper, or do they cost the same?
2. Which would you choose?
3. Why did you make that choice?

# Round 4 Testing

## Demographics

In Round 4 of the testing, staff recruited participants who mirrored the U.S. census. As a part of the screening protocol, professional testing sites recruited participants based on the following criteria:

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

Additionally, KCG screened participants based on their experiences in

- ▼ obtaining a mortgage (whether purchasing or refinancing a home), and
- ▼ shopping for a new mortgage loan.

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

Once selected, and after completing the testing, staff paid participants an incentive of \$50.00. If more participants arrived than were needed or if cancellations occurred, the testing site tried to place or recruit participants who would represent the required demographics.

Table 35 provides demographics for Round 4 testing.

# Round 4 Testing

**Table 35. Participant Demographic Information—Round 4**

	Number	Percent
<b>Gender</b>		
Female	347	58
Male	252	42
<b>Age</b>		
21 or younger	1	.2
22 to 34	150	25
35 to 44	166	27.7
45 to 54	167	27.8
55 to 64	92	15.4
65 or older	23	3.9
<b>Education</b>		
Less than high school	6	1
High school or GED	99	16.5
Some college or a 2-year college program	182	30.3
College graduate	214	35.7
Graduate School	98	16.3
<b>Income</b>		
Less than \$20,000	11	1.8
\$20,000 to \$39,999	79	13.2
\$40,000 to \$59,999	153	25.5
\$60,000 to \$79,999	149	24.8
\$80,000 to \$99,999	91	15.2
\$100,000 or more	101	16.8
<b>Marital Status</b>		
Married	415	69.2
Single/Divorced	177	29.5
<b>Race/Ethnicity (participants could select more than one category)</b>		
Hispanic/Latino	25	4.2
American Indian/Alaskan Native	19	3.2
Asian	9	1.5
Black or African American	61	10.2
Native Hawaiian or other Pacific Islander	3	.5
White	512	85.3
Other	—	—

## Study Questions

Study questions used for Round 4 of testing included the following:

- ▼ Which of two offers will cost less, or will they cost the same amount?
- ▼ If shopping for a mortgage loan and these two offers were the only ones available, would the participant prefer one of the offers or are both equally attractive?
- ▼ Why did participants answer the way they did?

# Round 4 Testing

## Summary of Findings

The FTC conducted a study of the YSP disclosure in 2003 using extracted elements of HUD's GFE as published in the 2002 RESPA proposed rule. In their study, FTC observed that the YSP disclosure unfairly biased consumers against brokers, which prompted HUD to undertake additional testing on the GFE. Thus, for Round 4 of testing, HUD asked KCG to parallel aspects of the FTC study, including the questions asked, the difference between the amounts of each offer, and the length of the test situation. However, because HUD thought the context of the entire form might provide a more accurate measure of participants' understanding of the GFE, the study design used a full-length GFE rather than the extracted elements from the FTC study. For each site, staff selected 120 participants for demographic diversity. The results of this testing showed both consistency and divergence with the FTC results.

## Different Cost Loan Comparisons

With the YSP disclosed, 83 percent of the participants correctly identified the broker loan as cheaper, and 8 percent incorrectly identified the lender as cheaper. These results are an improvement over the FTC results of 72 percent and 17 percent. In this GFE scenario, 72 percent of the participants said they would choose the broker offer and 11 percent said they would choose the lender. Similarly, in the FTC study, 70 percent of the participants chose the broker offer, and 16 percent chose the lender offer (Table 36).

**Table 36. Different Cost Loan Results**

	Without YSP (Percent)		With YSP (Percent)	
	FTC	HUD	FTC	HUD
<b>Which loan is cheaper?</b>				
Broker (correct)	90.3	91.6	71.8	83.2
Lender (incorrect)	3.9	.7	16.5	7.9
Same (incorrect)	5.8	5.6	9.7	6.3
Don't know	0	0	1.9	0
No answer	—	2.1	—	2.6
<b>Which would you choose?</b>				
Broker	85.2	88.1	69.9	72.1
Lender	2.9	.4	15.5	11.1
Either	3.9	6.3	4.9	11.4
Neither	2.9	0	1.9	0
Don't know	4.9	3.5	7.8	3.5
No answer	—	1.7	—	1.9
Other	—	—	—	—

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

# Round 4 Testing

## Same Cost Loan Comparisons

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

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

## Qualitative Analysis

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

# Round 4 Testing

**Table 37. Same Cost Loan Results**

	Without YSP (Percent)		With YSP (Percent)	
	FTC	HUD	FTC	HUD
<b>Which loan is cheaper?</b>				
Broker (incorrect)	1.9	.7	10.7	2.9
Lender (incorrect)	2.9	1.4	30.1	14.6
Same (correct)	95.1	95.1	53.4	80.6
Don't know	0	—	5.8	0
No answer	—	2.1	—	1.9
Other	—	.7	—	—
<b>Which would you choose?</b>				
Broker	6.8	2.1	16.5	5.4
Lender	6.8	1.4	45.6	39.3
Either	77.7	89.5	25.2	50.4
Neither	6.8	0	6.8	0
Don't know	1.9	4.6	5.8	2.6
No answer	—	2.1	—	2.3
Other	—	.3	—	—

## Recap of HUD's Goals

HUD's goals for Round 4 were to

- ✓ **Emulate certain aspects of a yield spread premium study conducted by the FTC and**
- ✓ **Use qualitative and quantitative research to see how improvements to the GFE helped consumers choose lower-cost loans.**

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

When the form did not disclose the YSP disclosure, 92 percent correctly identified the broker loan as cheaper, and one percent incorrectly identified the lender as cheaper. These results are quite similar to FTC's results of 90 percent and 4 percent. When asked to choose a loan, 88 percent of participants chose the broker offer, while one percent chose the lender loan. These results compare to 85 percent and 3 percent respectively in the FTC testing.

# Round 4 Testing

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

The drop between the number of participants who identified a loan as lower or loans as costing the same and the number who would choose as expected (the lower loan or either) suggested influences besides cost. Analysis of the qualitative responses to “Why did you choose this loan?” identified several possible sources, and four primary trends emerged. First, the language about the YSP referred to “the charge for a higher interest loan.” Many participants commented that they wanted a lower interest loan and thus chose the bank offer without a credit. Second, many participants looked at the origination fee to determine which loan offer was cheaper rather than focusing on the adjusted origination fee or the total settlement costs. Third, some participants disliked the presence of YSP or discount points, commenting on it as “tricky” or such. Fourth, some participants commented that the \$300 difference in closing cost, less than 5 percent of total closing cost, and only 0.3 percent of the loan amount, were insufficient to force a choice.

## Recommendations for Improving the Forms

This section summarizes the recommendations for future revisions to the GFE. The recommendations for the GFE are broken down by section of the form.

### Yield Spread Premium (YSP) Information

- ▼ **Add a third option to the YSP information on page 2.** Many consumers were confused by the fact that on lender loans, where no YSP was reported, neither of the options dealing with YSPs or discount points was checked. The solution to this issue was to add an additional option to the YSP information, which would be checked when no amount was reported in the second checkbox.

# Round 4 Testing

## How the Forms Changed

Based on the data from Round 4 results, HUD instituted several changes to the GFE, including the following:

- ▼ Changing the language about YSP to repeat the interest rate and the loan amount
- ▼ Adding arrows in the margins of page 1 to emphasize total and sub-total amounts
- ▼ Adding a third option to check when credits and charges were included in the origination fee and not broken out separately
- ▼ Adding a mortgage shopping chart (as a new page 4), which would help consumers compare multiple loan offers

A sample of forms tested in Round 5 appears in Appendix E.



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Fig Borrower John Smith  
 Phone (800) 663-4133 SSN 298-48-3811  
 Address 20 Main Street Property Address 300 Fifth Street  
Anytown, USA 32372 Anytown, USA 32372

## About Your GFE

**What is a GFE?** This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

**How should you use this GFE to shop for the best loan?** You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan. Use the table on Page 4 to compare all the offers you receive.

This terms and conditions of this GFE are valid for 10 business days from this date 2 / 20 / 04.

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

<b>Your loan amount will be:</b>	<b>\$ 100,000.00</b>	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	6.0 %	% 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	\$ 599.55	\$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$
Your rate lock period	60 days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	<b>\$2,800.00</b>
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	<b>\$3,700.00</b>
<b>Total Estimated Settlement Charges</b>	<b>\$6,500.00</b>

Arrows added to call attention to summary lines

**Understanding  
Your Estimated  
Settlement  
Charges**

**Your Charges for Loan Origination**

1. Our service charge These charges are for the services we provide when we get and process this loan for you.	\$2,800.00
2. Your credit or charge for the specific interest rate chosen (points) <input checked="" type="checkbox"/> The credit or charge for the interest rate you have chosen is included in "Our service charge." (See item 1 above) <input type="checkbox"/> You receive a credit of \$ _____ for this interest rate of ____%. This credit reduces your upfront charges. <input type="checkbox"/> You pay a charge of \$ _____ for this interest rate of ____%. This payment (discount points) increases your upfront charges. (See the table on page 3 to see how you can change this charge or credit by choosing a different interest rate.)	\$0.00
<b>A</b> Your Adjusted Origination Charges	<b>\$ 2,800.00</b>

Arrows added to call attention to summary lines

**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	
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 title agent, for example, and title insurance to protect the lender, if required.		\$900.00
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	
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.		\$719.35
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 \$ 16.13 per day for 5 days (if your closing date is 3 / 27 / 04).		\$80.65
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>B</b> Your Charges for All Other Settlement Services		<b>\$ 3,700.00</b>

Arrows added to call attention to summary lines

<b>A + B = Total Estimated Settlement Charges</b>	<b>\$ 6,500.00</b>
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**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 section, depending upon who chooses the provider of the service.

**These charges 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)

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

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

**These charges 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)
6. Taxes and fees
7. Reserves or escrow
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**

	<b>The loan in this GFE</b>	<b>A loan with a lower interest rate</b>	<b>A loan with lower settlement costs</b>
Your loan amount	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00
Your interest rate	6.0 %	5.75 %	6.25 %
How much your monthly payment will be	\$ 599.55	\$ 583.57	\$ 615.72
How much more or less in monthly payments from this GFE	No Change	You will pay \$ 15.98 less every month	You will pay \$ 16.17 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	\$ 6,500.00	\$ 7,500.00	\$ 5,500.00

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.

**Proceeding with This Application**

If you would like to proceed with this mortgage application, you must pay a fee of \$ 350.00 which will be applied toward your settlement costs.

The interest rate and points on this GFE are available until 3 / 1 / 04. After that, they float until you lock. You must lock in the interest rate at least **5** days before settlement.

# Mortgage Shopping Chart

➤ Use this chart to compare Good Faith Estimates (GFEs). Fill out the information by using a different column for each GFE.  
 ➤ By comparing loan offers, you can shop for the best loan offers, you can shop for the best loan.

	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5	Loan 6
Loan Originator Name						

## Loan Details

Loan Amount						
Interest Rate						
Loan Term						
Monthly Payment						

## Settlement Costs

Adjusted Origination Charge						
Charges for All Other Settlement Services						
<b>Total Estimated Settlement Charges</b> ▲						

Mortgage Shopping Chart added as page 4 to help consumers choose the loan that is right for them

# Round 4 Testing

## Questions for Round 5 Testing

In Round 5 of the GFE testing, the questions were similar to those of Round 4 and included an additional qualitative question:

- ▼ Based on the information in these two offers, which of these two offers will cost you less, or will they cost you the same amount?
- ▼ Why did you choose that answer?
- ▼ If you were shopping for a mortgage loan and these two offers were the only ones available, would you prefer one of these offers, or are both equally attractive to you?
- ▼ Please tell us briefly why you chose the answer that you did to question 3.

To test whether increased context improved or decreased consumer performance with the revised GFE, HUD asked Aspen/KCG to give half of the participants (those given the GFE with a 3-option YSP) a four-loan comparison as well. For this four-way comparison, HUD included a blank worksheet—the Mortgage Shopping Chart—to aid participants in comparing the loans. Staff asked participants they directed to use the chart the following questions:

- ▼ Which of the four loan offers would cost less?
- ▼ Was the Mortgage Shopping Chart helpful and why?

# Round 5 Testing

# Round 5 Testing

## Introduction

Before beginning work on Round 5 of testing, KCG, through a subcontract with Aspen Systems, used data collected during Round 4 to make improvements to the GFE. Round 5 closely mirrored Round 4 in objective, methodology, and demographics. The key purpose of Round 5, however, was to collect data to see how well the forms worked because of consumer-driven changes to the GFE.

## HUD's Goals

For Round 5, HUD's goals included the following:

- ▼ Test a 3-option yield spread premium (YSP) versus a 2-option YSP GFE
- ▼ Verify language changes to the origination charges section of the GFE
- ▼ Assess the addition of arrows to the design
- ▼ Test the Mortgage Shopping Chart as an additional condition to the 3-option YSP GFE

In Round 5 of the GFE testing, the questions were similar to those of Round 4 and included an additional qualitative question:

- ▼ Based on the information in these two offers, which of these two offers will cost you less, or will they cost you the same amount?
- ▼ Why did you choose that answer?
- ▼ If you were shopping for a mortgage loan and these two offers were the only ones available, would you prefer one of these offers, or are both equally attractive to you?
- ▼ Please tell us briefly why you chose the answer that you did to question 3.

To test whether increased context improved or decreased consumer performance with the revised GFE, HUD asked Aspen/KCG to give half of the participants (those given the GFE with a 3-option YSP) a four-loan comparison as well. For this four-way comparison, HUD included a blank worksheet—the Mortgage Shopping Chart—to aid participants in comparing the loans. The worksheet contained spaces for the originator's name, loan amount, interest rate, term, monthly payment, adjusted origination charge, charges for all other settlement services, and total estimated settlement charges. On page one of the GFE, a sentence directing participants to use the comparison chart to compare offers was inserted. Additionally, staff gave half of the participants explicit verbal directions to use the worksheet. Because of this additional condition studying the effect of the Mortgage Shopping Chart on consumers' decisions, staff asked half of the sample who received the Mortgage Shopping Chart (150 participants) one or two further questions, such as:

- ▼ Which of the four loan offers would cost less?
- ▼ If the Mortgage Shopping Chart was helpful, and why.

# Round 5 Testing

The objective in studying the Mortgage Shopping Chart was two-fold. One question concerned whether consumers would naturally use such a comparison chart when they received more than two loan offers at once. The second question was to determine how well people identified the cost of loan offers when staff prompted them to use the comparison form.

Staff did not prompt the remaining 150 participants of the sub-sample to use the Mortgage Shopping Chart.

## Methodology

In Round 5, KCG tested 600 diverse participants in five sites. The sites for the testing were Atlanta, Georgia; Boston, Massachusetts; Denver, Colorado; Seattle, Washington; and Tulsa, Oklahoma.

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

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

The testing team then set up eight variations to test the forms (L represents a lender offer and B represents a broker offer):

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

Each set of loan offers contained a broker and a lender loan offer, and each of the 600 participants saw three sets of loan offers. To limit bias, staff used 12 different rotations for presenting the different loan offers. At the end of the GFE study, 300 of the 600 participants saw an additional packet of four loan offers for a side-by-side comparison. A further condition of this sample was the study of the Mortgage Shopping Chart. Of the 300 who saw the four-form

# Round 5 Testing

comparison, staff gave 150 participants directions to use the comparison chart. Staff did not direct the remaining participants to use the comparison chart.

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

## Analytic Approach

### Database

Aspen staff entered answer sheet responses into a MS Access® database. After Aspen staff entered all of the data into the database, they reviewed the data by conducting a quality assurance check. The Aspen/KCG team then generated reports and analyzed the quantitative data by exporting the data from MS Access® into SPSS®. The Aspen/KCG team then used SPSS® to calculate response frequencies for all questions, with the exception of the qualitative open-ended questions.

### Qualitative and Quantitative Analysis

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

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

# Round 5 Testing

## Study Methodology

Because of the testing and analysis, revisions to the GFE included the following:

- ▼ Aspen/KCG modified the language in box 2 on page two of the GFE referring to the “higher interest rate” and “lower interest rate” to reduce the possibility of borrowers misinterpreting that the interest rate had changed from what appeared on the first page.
- ▼ Aspen/KCG added a third option to YSP/discount points section (on page 2) so lenders could indicate that their credits or charges were already included in “Our Service Charge.” This addition attempted to mitigate the sense of some participants that credits and charges were not straightforward.
- ▼ Aspen/KCG added arrows on pages 1 and 2 to focus the borrower’s attention on the subtotals and the total estimated charges rather than individual components. In addition, Aspen/KCG increased the point size in the Total Estimated Settlement Charges on the bottom of page one to draw attention to the bottom-line.

For purposes of testing, staff made three other changes to the GFEs. First, staff changed the difference in the total cost to \$500 to increase the likelihood that the cost difference would be a deciding factor. Second, staff added another pair of loan options in which the lender offer was \$500 less than the broker offer. Staff intended this addition to identify any bias for or against the broker and lender options. Finally, staff added a set of four loans to verify whether the comparison across more than two offers increased or decreased participant performance. Staff did not test any version of the GFE without YSP and discount-points language.

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

Both Aspen Systems and KCG staff filled key positions within the testing team. At each testing site, an Aspen team member served as test moderator while a KCG team member observed the testing sessions. At the end of each day of testing, Aspen/KCG staff sent participant answer sheets to Aspen Systems for data entry.

To test whether increased context improved or decreased consumer performance with the revised GFE, HUD asked Aspen/KCG to give half of the participants (those given the GFE with a 3-option YSP) a four-loan comparison as well. For this four-way comparison, HUD included a blank worksheet—the Mortgage Shopping Chart—to aid participants in comparing the loans. The worksheet contained spaces for the originator’s name, loan amount, interest rate, term, monthly payment, adjusted origination charge, charges for all other settlement services, and total estimated settlement charges. On page 1 of the GFE, a sentence directing participants to use the comparison chart to compare offers was inserted. Additionally, staff gave half of the participants explicit verbal directions to use the worksheet.

# Round 5 Testing

Of the participants who received the 3-option GFE and the four-loan comparison, half were given a set in which a broker loan offer of \$6,100 cost less. The other three GFEs reflected a lender loan offer of \$6,400 and lender and broker loan offers in which both cost \$6,500. Staff gave the other half a set in which lender and broker loan offers cost the same and were the least expensive at \$6,500. In this same set, participants received a broker loan offer of \$6,900 and a lender loan offer of \$6,600. In addition, only 150 participants received explicit verbal instructions to use the worksheet in their comparison, while half received no instructions.

## Demographics

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

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

Additionally, staff screened participants based on their experiences in

- ▼ obtaining a mortgage (whether purchasing or refinancing a home), and
- ▼ shopping for a new mortgage loan.

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

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

Table 38 provides demographics for Round 5. Table 39 provides a side-by-side comparison of demographics for both Rounds 4 and 5.

# Round 5 Testing

**Table 38. Participant Demographic Information—Round 5**

	Number	Percent
<b>Gender</b>		
Female	321	53.3
Male	281	46.7
<b>Age</b>		
21 or younger	2	.3
22 to 34	155	25.7
35 to 44	167	27.7
45 to 54	170	28.2
55 to 64	81	13.4
65 or older	28	4.7
<b>Education</b>		
Less than high school	11	1.8
High school or GED	112	18.6
Some college or a 2-year college program	192	31.9
College graduate	206	34.2
Graduate School	81	13.5
<b>Income</b> (six participants did not answer this question)		
Less than \$20,000	15	2.5
\$20,000 to \$39,999	86	14.3
\$40,000 to \$59,999	151	25.0
\$60,000 to \$79,999	140	23.2
\$80,000 to \$99,999	90	14.9
\$100,000 or more	115	19.1
<b>Marital Status</b>		
Married	409	67.8
Single/Divorced	191	31.7
<b>Race/Ethnicity</b> (participants could select more than one category)		
Hispanic/Latino	38	6.3
American Indian/Alaskan Native	17	2.8
Asian	10	1.7
Black or African American	64	10.6
Native Hawaiian or other Pacific Islander	3	.5
White	500	82.9
Other	25	4.1

# Round 5 Testing

**Table 39. Participant Demographic Information—Side-by-Side Comparison**

	Round 4 (Percent)	Round 5 (Percent)
<b>Gender</b>		
Female	58	53.3
Male	42	46.7
<b>Age</b>		
21 or younger	.2	.3
22 to 34	25	25.7
35 to 44	27.7	27.7
45 to 54	27.8	28.2
55 to 64	15.4	13.4
65 or older	3.9	4.7
<b>Education</b>		
Less than high school	1	1.8
High school or GED	16.5	18.6
Some college or a 2-year college program	30.3	31.9
College graduate	35.7	34.2
Graduate School	16.3	13.5
<b>Income</b> (six participants did not answer this question)		
Less than \$20,000	1.8	2.5
\$20,000 to \$39,999	13.2	14.3
\$40,000 to \$59,999	25.5	25.0
\$60,000 to \$79,999	24.8	23.2
\$80,000 to \$99,999	15.2	14.9
\$100,000 or more	16.8	19.1
<b>Marital Status</b>		
Married	69.2	67.8
Single/Divorced	29.5	31.7
<b>Race/Ethnicity</b> (participants could select more than one category)		
Hispanic/Latino	4.2	6.3
American Indian/Alaskan Native	3.2	2.8
Asian	1.5	1.7
Black or African American	10.2	10.6
Native Hawaiian or other Pacific Islander	.5	.5
White	85.3	82.9
Other	—	4.1

# Round 5 Testing

## Study Questions

In Round 5 of the GFE testing, the questions were identical to those of Round 4 with the exception of an additional qualitative question:

- ▼ Based on the information in these two offers, which of these two offers will cost you less, or will they cost you the same amount?
- ▼ Why did you choose that answer?
- ▼ If you were shopping for a mortgage loan and these two offers were the only ones available, would you prefer one of these offers, or are both equally attractive to you?
- ▼ Please tell us briefly why you chose the answer that you did to question 3.

To test whether increased context improved or decreased consumer performance with the revised GFE, HUD asked Aspen/KCG to give half of the participants (those given the GFE with a 3-option YSP) a four-loan comparison as well. For this four-way comparison, HUD included a blank worksheet—the Mortgage Shopping Chart—to aid participants in comparing the loans. The worksheet contained spaces for the originator’s name, loan amount, interest rate, term, monthly payment, adjusted origination charge, charges for all other settlement services, and total estimated settlement charges. On page one of the GFE, a sentence directing participants to use the comparison chart to compare offers was inserted. Additionally, staff gave half of the participants explicit verbal directions to use the worksheet. Because of this additional condition studying the effect of the Mortgage Shopping Chart on consumers’ decisions, staff asked half of the sample who received the Mortgage Shopping Chart (150 participants) one or two further questions, such as:

- ▼ Which of the four loan offers would cost less?
- ▼ Was the Mortgage Shopping Chart helpful, and why?

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

Staff did not prompt the remaining 150 participants of the sub-sample to use the Mortgage Shopping Chart.

# Round 5 Testing

## Summary of Findings

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

1. Staff modified the language in box 2 on page two of the GFE referring to the “higher interest rate” and “lower interest rate” to reduce the possibility of borrowers misinterpreting that the interest rate had changed from what appeared on the first page.
2. A third option was added to YSP/discount points section on page two so a lender could indicate that their credits or charges were already included in “Our Service Charge.” This addition would mitigate the sense of some participants that credits and charges were not straightforward.
3. Staff added arrows on pages 1 and 2 to focus the borrower’s attention on the subtotals and the total estimated charges rather than individual components. In addition, staff increased the point size in the Total Estimated Settlement Charges on the bottom of page one to draw attention to the bottom-line.

For purposes of testing, staff made three other changes to the GFEs. First, staff changed the difference in the total cost to \$500 to increase the likelihood that the difference would be a deciding factor. Second, staff added another pair of loan options in which the lender offer was \$500 less than the broker offer. Staff intended for this addition to identify any bias for or against the broker and lender options. Finally, staff added a set of four loans to verify whether the comparison across more than two offers increased or decreased participant performance. Staff did not test any version of the GFE without YSP and discount-points language.

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

### Different Cost Loan Comparisons (Broker Less)

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

# Round 5 Testing

**Table 40. Round 5 Different Cost Loan Comparisons (Broker Less)**

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

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

## Different Cost Loan Comparisons (Lender Less)

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

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

# Round 5 Testing

**Table 41. Round 5 Different Cost Loan Comparisons (Lender Less)**

Which offer costs less?	2-option YSP		3-option YSP	
	Number	Percent	Number	Percent
B\$6,100 (correct)	256	88.9	275	92.3
Both loans are the same (incorrect)	22	7.6	18	6.0
L\$6,600 (incorrect)	6	2.1	3	1.0
Other	2	.7	1	.3
NR	2	.7	1	.3

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

## Same Cost Loan Comparisons

In the GFE in which the broker and lender loan offers were of equal cost, 90 percent of the participants were able to identify that fact correctly. This result compares very favorably with the 53 percent reported by FTC and the 81 percent from Round 4. Participants in Round 5 misidentified the lender as cheaper seven percent of the time, a large improvement over 30 percent in the FTC results and 15 percent in Round 4. Participants misidentified the broker as cheaper one percent of the time as compared to 11 percent in the FTC study and three percent in Round 4. This finding suggests that changes to the YSP information improved consumer performance.<sup>7</sup> Seventy percent of the time, participants said they would choose either loan, a dramatic increase over the 25 percent in the FTC study and the 50 percent in Round 4. Twenty-one percent would choose the lender as compared to 46 percent in the FTC study and 40 percent in Round 4. Four percent of participants chose the broker compared to 17 percent in the FTC study and five percent in Round 4. The 2-option form results in Round 5 show the same basic sizeable trend in success rates and reduction in bias.

<sup>7</sup> In our test design, the amounts of the YSP always exceeded the price differential between the loans, both when the prices are different as well as when they are the same. This approach was intentional in order to elicit the “YSP mistake” of adding the disclosed YSP to total estimated charges. Consumers who interpreted the YSP information in this way were likely to conclude that brokered loans were always more expensive than non-YSP lender loans.

# Round 5 Testing

**Table 42. Round 5 Same Cost Loan Comparisons**

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

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

## Four-Form Comparisons

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

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

# Round 5 Testing

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

When instructed to use the comparison sheet, many participants did, 97 percent correctly identified the \$6,100 broker loan as the cheapest, and none wrongly picked the \$6,400 lender loan. The overall success rate for identifying the correct loan as the cheapest for both those getting and those not getting the verbal instructions to use the comparison worksheet was 95 percent, with only one percent misidentifying the lender as cheaper.<sup>8</sup>

**Table 43. Four-form Comparison, Participants Did Not Receive Instructions to Use the Mortgage Shopping Chart**

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

**Table 44. Four-form Comparison, Participants Received Instructions to Use the Mortgage Shopping Chart**

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

<sup>8</sup> A success rate of 95 percent may be as high as one could expect in this kind of testing. This is the same success rate of the FTC, when they gave borrowers two equally costly loans, one from a broker and one from a lender, without the YSP disclosed. In other words, where borrowers received two identical forms with identical loan data on them, only 95 percent figured out the offers were the same.

# Round 5 Testing

In the case where both loans cost the same and staff gave no verbal instructions to use the comparison sheet, 41 percent picked the broker loan as cheaper and 49 percent picked the lender loan. With verbal instructions to use the worksheet, 57 percent picked the broker at \$6,500 and 35 percent picked the lender at \$6,500. The combined average was 49 percent for the lender and 41 percent for the broker.<sup>9</sup>

**Table 45. Four-form Comparison, Participants Did Not Receive Instructions to Use the Mortgage Shopping Chart**

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

**Table 46. Four-form Comparison, Participants Received Instructions to Use the Mortgage Shopping Chart**

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

<sup>9</sup> In this portion of testing, staff did not explicitly ask participants which loan they would prefer. Rather, staff asked only which loan offer cost less. This was intentional because HUD did not want to point participants to the fact that two loans might cost the same. By forcing only one choice for the cheaper loan when there were two at the lowest price, the study design implicitly asked which loan a participant would prefer.

# Round 5 Testing

## Recap of HUD's Goals

For Round 5, HUD's goals were to the following:

- ✓ **Test a 3-option yield spread premium versus a 2-option yield spread premium GFE**
  - The 3-option GFE and the 2-option GFE performed similarly with the 3-option form consistently getting slightly better results. Although some participants continued to comment negatively about “points” or credits, the number of comments decreased and a few participants commented on liking the breakout of YSP and discount points.
- ✓ **Verify language changes to the origination charges section of the GFE**
  - The 3-option GFE consistently performed better than the 2-option GFE and reduced suspicion about the credit/charge of the YSP disclosure.
- ✓ **Assess the addition of arrows to the design**
  - The summary-line arrows were successful in focusing participants' attention on the subtotals and total estimated charges, allowing them to clearly see and understand the bottom-line costs.
- ✓ **Test the Mortgage Shopping Chart as an additional condition to the 3-option yield spread premium GFE.**
  - **Four-form Comparison Results.** Participant performance on the four-form comparison was impressive. In the comparison, in which the broker loan offer of \$6,100 was the cheapest, 92 percent of participants who staff reminded to use the comparison worksheet correctly reported the \$6,100 broker loan as the cheapest. Three percent incorrectly identified the \$6,400 lender loan as the cheaper loan. These results are the same as for the paired comparison discussed earlier where the broker was \$500 less. Interestingly, very few of the participants who did not receive a reminder to use the comparison worksheet used it.<sup>10</sup> When instructed to use the comparison sheet, 97 percent correctly identified the \$6,100 broker loan as the cheapest, and none wrongly picked the \$6,400 lender loan. The overall success rate for correctly identifying the correct loan as the cheapest for both those getting and those not getting the verbal instructions to use the comparison worksheet was 95 percent, with only one percent misidentifying the lender as cheaper.

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

<sup>10</sup> This lack of use may be attributed in part to the constraints of being in a timed testing situation.

# Round 5 Testing

## Recommendations for Improving the Forms

This section summarizes the recommendations for future revisions to the GFE. The recommendations for the GFE are broken down by section of the forms.

- ▼ **Retain the revised language.** Staff revised the GFE language in Round 5 to reduce the possibility of borrowers misinterpreting that the interest rate had changed from what appeared on the first page. Also, a third option was added to YSP/discount points section on page 2 so a lender could indicate that their credits or charges were already included in “Our Service Charge.” This addition would mitigate the sense of some participants that credits and charges were not straightforward. By retaining the revised language, the GFE will continue to aid consumers in understanding the interest rate and YSP/discount points and allow them to determine which offer is less expensive.
- ▼ **Add additional loan-term disclosures.** Staff provided additional loan-term disclosures, particularly with respect to loan balance and monthly amount owed, to help consumers make better-informed decisions. Furthermore, KCG updated the Mortgage Shopping Chart to reflect the additional disclosures so consumers would be able to compare multiple offers accurately with the most comprehensive information available.
- ▼ **Retain the 3-option yield spread premium.** The 3-option GFE consistently received slightly better results than the 2-option GFE. In the 3-option GFE, in which the broker was cheaper, 92 percent of the participants correctly identified the broker as the cheaper loan offer. In Round 4, 83 percent correctly identified the broker as the cheaper loan offer. In the 3-option GFE where the lender was cheaper, 92 percent of the participants correctly identified the lender as the cheaper loan offer. Ninety percent of the participants were able to identify correctly that both offers cost the same in the 3-option GFE where the broker and lender loan offers were equal. Eighty-one percent correctly answered that both offers were the same in Round 4. Both the 3-option and 2-option GFE performed well; however, the higher results and better comprehension of the 3-option GFE suggest that HUD should retain the 3-option GFE. Staff also added additional language to the YSP disclosure, which informed consumers that lenders might receive an additional payment if they sell consumer loans after settlement.
- ▼ **Revise the taxes and fees disclosure to enhance clarity.** Staff revised item 6 on page 2 of the GFE to make government recording and transfer charges clearer.
- ▼ **Retain the summary-line arrows.** Staff added the arrows to focus the participants’ attention on the subtotals and the total estimated charges rather than the individual components of the GFE. The summary-line arrows were successful in focusing participants’ attention on the subtotals and total estimated charges, allowing them to clearly see and understand the bottom-line costs.

# Round 5 Testing

- ▼ **Retain the Mortgage Shopping Chart as a permanent part of the GFE and MPO (as a new page four).** The Mortgage Shopping Chart allowed participants to conduct a four-loan comparison. The Mortgage Shopping Chart was successful in helping participants compare four loans on one worksheet. The overall reaction of participants was that the chart was very helpful in aiding their comparisons of several loans and allowing them to see which loan was cheapest overall.
- ▼ **Sponsor a Consumer Campaign.** Consumers remain unclear about the intent and purpose of YSP. Providing consumers standalone directions for the GFE and MPO and making those available via the Internet and mail will help to educate consumers on the intent and purpose of YSP and allow them to better understand and use the GFE and MPO.

## How the Forms Changed

Between the end of the project in June 2004 and the beginning of the next phase of testing, HUD made only minor edits to the GFE, including the following:

- ▼ Adding more educational and instructional information to the “About Your GFE” section on page 1
- ▼ Adding additional loan terms disclosures on page 1, including loan balance and monthly amount loan as well as corresponding changes to the mortgage shopping chart
- ▼ Moving the interest rate available date up front to ensure consumers see important dates related to GFE and interest rate validity
- ▼ Simplifying the “Summary of Your Loan Terms for This Estimate” table on page 1, specifically improving the layout to ensure that consumers do not have to jump around within the table to find important information
- ▼ Retaining the 3-option YSP GFE and adding anti-lender language to the YSP disclosure box
- ▼ Improving the tolerances section (page 3) to decrease consumer confusion
- ▼ Retaining the Mortgage Shopping Chart as a permanent part of the GFE

A sample of forms tested in Round 6 appears in Appendix F.

# Round 6 Testing

# Round 6 Testing

## Introduction

Before beginning work on Round 6 of testing, Kleimann Communication Group (KCG) and HUD made improvements to the GFE based on data collected in Round 5 of testing. Round 6 testing involved two GFE forms. This report refers to these two versions of the GFE as the “Revised GFE” and “Alternate GFE.” The Revised GFE refers specifically to the GFE developed and tested in Rounds 1 through 5 of testing, while the Alternate GFE refers to a two-page GFE developed internally by HUD in 2007, before Round 6 testing began.

The key purpose of Round 6 was to gauge participant comprehension of both the GFEs and to begin initial testing of the Settlement Script and HUD-1 settlement form (also developed internally by HUD in 2007). Round 6 consisted of two separate tests: Test 1 for the GFE and Test 2 for the Settlement Scripts.

Test 1 followed traditional usability testing methodologies to test the two versions of the GFE and focused on the presentation of the Revised and Alternate GFE forms as well as the total estimated settlement costs.

Therefore, the main goals of Test 1 in Round 6 were to study

- ▼ the performance of the two versions of the GFE,
- ▼ participant comprehension of the two versions of the GFE, and
- ▼ whether participants were able to compare information across GFEs.

Test 2 focused on testing the performance and resulting benefits of HUD’s recently developed Settlement Script. A completed Settlement Script contains two main components:

- ▼ A summary of a homebuyer’s loan details at closing presented in read-aloud script form and
- ▼ A crosswalk comparison chart that compares homebuyers’ estimated settlement costs, based on their GFE, to their actual settlement costs at closing, as shown on their HUD-1.

HUD’s intent is for settlement agents to read Settlement Scripts at closing to provide a clear and candid way for the agent and borrower to review closing details. Thus, the main goals of Test 2 in Round 6 were to determine whether the Settlement Script does, in fact, help consumers

- ▼ identify loan details and settlement costs,
- ▼ facilitate the comparison of estimated and actual costs, and
- ▼ help consumers identify discrepancies.

Using a small sample of participants, KCG conducted a settlement “simulation,” with the testing moderator acting as the settlement agent and the testing participant acting as the borrower. The purpose of this simulation was to help gauge the general effectiveness and usability of the script. Because the script was still in the early stages of development, HUD wanted to use testing to validate and inform further development of the script.

# Round 6 Testing

The appendix includes sample forms used in Test 1 and Test 2 of Round 6. These forms included:

## Test 1

- ▼ Revised GFE
- ▼ Alternate GFE

## Test 2

- ▼ Revised GFE
- ▼ HUD-1
- ▼ Settlement Script

During testing, these forms were filled in with test data.

## Test 1—Revised GFE and Alternate GFE

For Test 1 of the Revised GFE and Alternate GFE, HUD's goals were to

- ▼ Confirm that participants can identify the basic information in the GFE.
- ▼ Determine if participants can make inferences from information within the GFE.
- ▼ Identify if participants spontaneously use the shopping chart.
- ▼ Identify if participants can understand when a tolerance has been set and when their choices can limit the tolerance requirement.
- ▼ Determine how well participants can compare across GFEs.
- ▼ Identify if participants can accurately identify the least and most expensive settlement costs when they see three GFEs.
- ▼ Determine if a broker bias exists when participants choose the least expensive settlement costs.

## Methodology for Test 1

For this test, KCG created two separate Moderator Guides, one for participants reviewing the Revised GFE and one for participants reviewing the Alternate GFE. The Moderator Guides were essentially the same, but contained minor differences (because of the wording and layout differences between the Revised and Alternate GFE forms). Staff structured both Moderator Guides into three main tasks and included an introduction, break, and conclusion.

# Round 6 Testing

**Table 47. Structure—Round 6, Test 1**

Section	Time Allotted (minutes)	Task
Introduction	5	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant read and sign the confidentiality statement and fill out the questionnaire.
Task 1	30	The participant practices the task of reading and thinking aloud. The participant receives and reacts to a sample GFE completed as an example.
Task 2	20	We ask the participant open-ended and closed-ended questions about the first GFE.
Break	10	
Task 3	25	The participant receives the remaining two GFEs to review and compares the total estimated settlement costs on all three GFEs.
<b>Total time</b>	<b>90 minutes</b>	

For Test 1, staff divided 60 participants into three groups of 20. Within these three groups, 10 participants reviewed the Revised GFE and 10 participants reviewed the Alternate GFE. Within these groups,

- ▼ 5 participants reviewed a Revised GFE with lower broker charges for Tasks 1 and 2;
- ▼ 5 participants reviewed a Revised GFE with lower lender charges for Tasks 1 and 2;
- ▼ 5 participants reviewed an Alternate GFE with lower broker charges for Tasks 1 and 2; and
- ▼ 5 participants reviewed an Alternate GFE with lower lender charges for Tasks 1 and 2.

For Task 3, the moderator gave participants two additional GFEs, each of which was different from the original GFE they were given.

See tables 48 and 49 for overall condition rotation across the three test sites (in Atlanta, Georgia; Boston, Massachusetts; and Denver, Colorado).

# Round 6 Testing

**Table 48. Testing Conditions Rotation—Revised**

Package A (Revised GFE with Lower Broker Charges)					
	Task 1 & 2: Think Aloud	Task 3: Comparison	GA	MA	CO
<b>Condition 1</b>	Broker same	Lender same & broker lower	2	1	2
<b>Condition 2</b>	Lender same	Broker lower & broker same	2	2	1
<b>Condition 3</b>	Broker lower	Broker same & lender same	1	2	2

Package B (Revised GFE with Lower Lender Charges)					
	Task 1 & 2: Think Aloud	Task 3: Comparison	GA	MA	CO
<b>Condition 4</b>	Broker same	Lender same & lender lower	2	2	1
<b>Condition 5</b>	Lender same	Lender lower & broker same	1	2	2
<b>Condition 6</b>	Lender lower	Broker same & lender same	2	1	2

**Table 49. Testing Conditions Rotation—Alternate**

Package C (Alternate GFE with Lower Broker Charges)					
	Task 1 & 2: Think Aloud	Task 3: Comparison	GA	MA	CO
<b>Condition 7</b>	Broker same	Lender same & broker lower	2	2	1
<b>Condition 8</b>	Lender same	Broker lower & broker same	1	2	2
<b>Condition 9</b>	Broker lower	Broker same & lender same	2	1	2

Package D (Alternate GFE with Lower Lender Charges)					
	Task 1 & 2: Think Aloud	Task 3: Comparison	GA	MA	CO
<b>Condition 10</b>	Broker same	Lender same & lender lower	2	1	2
<b>Condition 11</b>	Lender same	Lender lower & broker same	2	2	1
<b>Condition 12</b>	Lender lower	Broker same & lender same	1	2	2

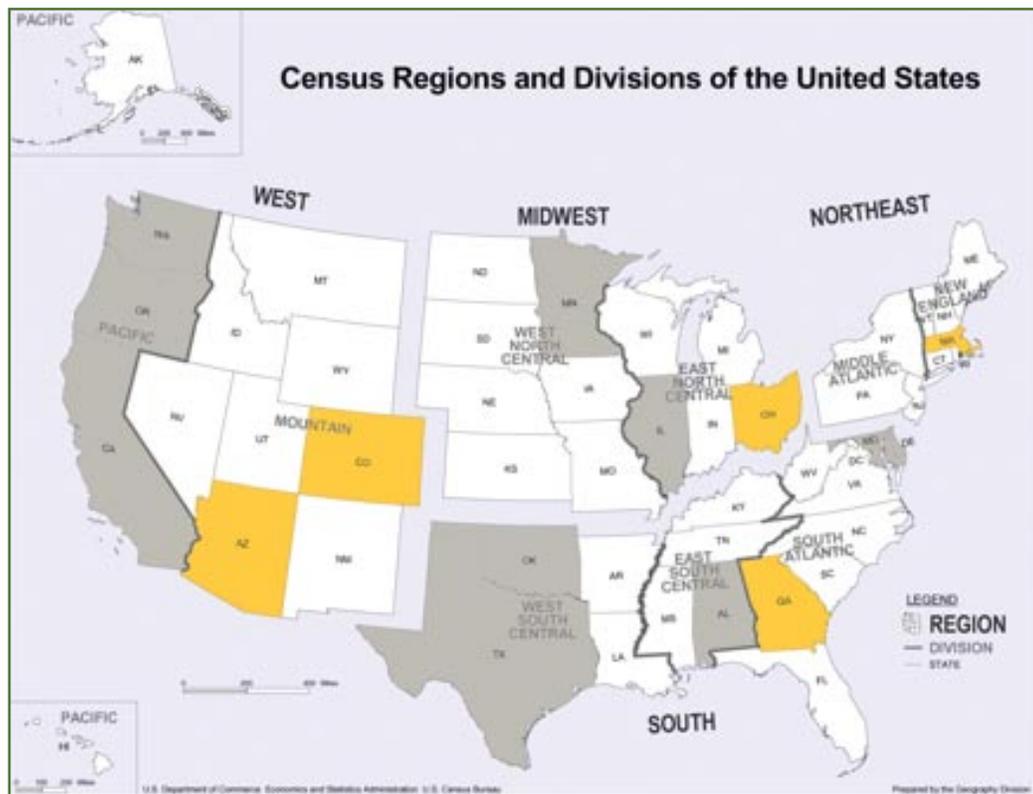
# Round 6 Testing

## Demographic and Test Site Information for Test 1

In Round 6, Test 1, staff tested 60 participants in three sites: Atlanta, Georgia; Boston, Massachusetts; and Denver, Colorado. (In Round 6, Test 2, staff tested 20 participants in two sites: Cincinnati, Ohio and Phoenix, Arizona.)

Figure 22 illustrates the geographic diversity of HUD testing, with grey states representing Rounds 1 through 5 and orange states representing Round 6 testing.

**Figure 22. Round 6 Test Sites**



In Round 6 testing, staff recruited the test population to mirror the U.S. Census. As a part of the screening protocol, professional testing sites recruited participants based on the following criteria:

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

# Round 6 Testing

Additionally, staff screened participants based on their experiences in

- ▼ obtaining a mortgage (whether purchasing or refinancing a home) and
- ▼ shopping for a new mortgage loan.

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

For Test 1, once participants were selected (and after their participation), they were paid an incentive of \$75 (Atlanta and Denver) or \$100 (Boston). If more participants arrived than were needed or if cancellations occurred, the testing site tried to place those extra participants or recruit participants who would represent the needed demographics.

Tables 50 and 51 provide demographics for Test 1.

# Round 6 Testing

**Table 50. Participant Demographic Information—Test 1**

Demographic Characteristics	Number in Sample	Percent
<b>Age</b>		
20 to 34	13	22
35 to 44	16	27
45 to 54	14	23
55 to 64	11	18
65 or older	6	10
<b>Race and Ethnicity*</b>		
Asian	4	7
White	44	73
Black or African American	12	20
Other (Native Hawaiian/Pacific Islander American, Indian/Alaskan Native, etc)	2	3
<i>* Participants were allowed to identify multiple ethnicities.</i>		
<b>Identified as Hispanic or Latino origin</b>	4	7
<b>Education—Highest Grade Completed</b>		
Less than High School	0	0
High School or GED	9	15
Some college or associate's degree	23	38
College graduate	15	25
Graduate School	13	21
<b>Household Income Per Year</b>		
Less than \$50,000	16	27
\$50,001 to \$75,000	23	38
\$75,001 to \$100,000	12	20
\$100,001 or more	9	15
<b>Marital Status and Gender</b>		
Single Male	14	23
Single Female	16	27
Married Male	11	18
Married Female	19	19
<b>Total Respondents</b>	<b>60</b>	<b>100 (60)</b>

In addition to the demographic requirements noted above, HUD requested to have two-thirds of the sample include experienced homebuyers who had bought or refinanced a home in the previous two years.

# Round 6 Testing

**Table 51: Homebuying Experience—Test 1**

Homebuying Experience	Number in Sample	Percent
Bought or refinanced in past 2 years		
Yes	41	68
No	19	32
Plan to buy or refinance in next year		
Yes	23	38
No	36	60
No Response	1	2
Of those who plan to buy:*		
Have gone to open houses	21	35
Have contacted a real estate agent	14	23
Have pre-qualified for a mortgage loan	7	12
<i>* Participants were allowed to select as many options as applied to their situation</i>		
<b>N</b>	<b>60</b>	

## Study Questions for Test 1

Study questions for Test 1 included the following:

- ▼ Can participants identify the basic information in the GFE?
- ▼ Can participants make inferences from information within the GFE?
- ▼ Do consumers spontaneously use the shopping chart?
- ▼ Can participants understand when a tolerance is enforced and when their choices can limit the tolerance requirement?
- ▼ How well are participants able to compare information across GFEs?
- ▼ Can participants accurately identify the least and most expensive settlement costs when they see three GFEs?
- ▼ Does a broker bias exist when consumers choose the least expensive settlement costs?

# Round 6 Testing

## Test 2—Revised GFE, HUD-1, and Settlement Script

For Test 2 of the Revised GFE, HUD-1, and Settlement Script, HUD’s goals were to

- ▼ Confirm that participants can find discrepancies between the GFE and the HUD-1.
- ▼ Confirm if participants can determine whether discrepancies are within tolerance limits.
- ▼ Investigate participant response if identified discrepancy is outside tolerance limits.
- ▼ Investigate whether the Settlement Script helps participants to identify loan details.
- ▼ Investigate whether the Settlement Script functions as a “crosswalk” to help participants compare GFE costs to actual HUD-1 costs.

## Methodology for Test 2

In Round 6, Test 2, questions focused on the following general topic areas:

- ▼ Participants’ general understanding of the GFE, HUD-1, and the Settlement Script
- ▼ Participants’ ability to identify information on different forms
- ▼ Participants’ ability to compare information across forms
- ▼ Participants’ general thoughts and reactions to the forms

Staff also asked some questions from Test 1 to gauge participant understanding of the Revised GFE.

In Test 2, KCG tested:

- ▼ 2 different GFEs: one with a 30-year-fixed mortgage and one with a Payment Option Adjustable Rate Mortgage (ARM)
- ▼ 2 different HUD-1’s: one with a corresponding 30-year-fixed mortgage and one with a corresponding Payment Option ARM
- ▼ 2 different Settlement Summaries: one comparing the information between the 30-year-fixed GFE and HUD-1 and one comparing the Payment Option ARM GFE against the HUD-1

# Round 6 Testing

**Table 52. Structure—Test 2**

Section	Time Allotted (minutes)	Task
Introduction	5	We introduce ourselves, briefly describe the purpose of the test in general terms, and have the participant read and sign the confidentiality statement and fill out the questionnaire.
Task 1	20	We give the participant a few minutes to look over each document and ask a few general questions about each.
Task 2	5	(for Script participants only) The moderator conducts “simulation” by reading through script with the participant.
Break	5	
Task 3	20	The participant answers a series of questions regarding the estimated and actual loan details and settlement costs and the variance between the two. These questions require the participant to compare across forms.
Task 4	15	The participant answers a series of questions regarding his or her general impressions of the documents and any suggestions he or she might have.
<b>Total time</b>	<b>90 minutes</b>	

In Test 2, staff tested 20 participants across two sites: Cincinnati, Ohio and Phoenix, Arizona. Staff divided these 20 participants into two groups of 10. Within these two groups, five participants worked with a GFE and HUD-1 that dealt with a 30-year-fixed mortgage, and five worked with a GFE and HUD-1 that dealt with a Payment Option ARM. Of these two groups of 10, the first worked with only a GFE and HUD-1 form, while the second worked with a GFE, HUD-1, and Settlement Script.

The testing team set up four variations to test the forms:

- ▼ 30-year-fixed GFE and HUD-1 with no Settlement Script (condition 1)
- ▼ 30-year-fixed GFE and HUD-1 with Settlement Script (condition 3)
- ▼ Payment Option ARM GFE and HUD-1 with no Settlement Script (condition 2)
- ▼ Payment Option ARM and HUD-1 with Settlement Script (condition 4)

As shown in Table 53, forms were always presented in the following order: GFE (estimated costs), HUD-1 (actual costs), and Settlement Script (if applicable).

# Round 6 Testing

**Table 53. Testing Conditions—Test 2**

Package A—30 Year Fixed		
	Participant Number	Participant Number
Condition 1 (No Script)	AZ01	OH11
	AZ02	OH12
	AZ03	
Condition 2 (With Script)	AZ04	OH13
	AZ05	OH14
		OH15
Package B—Payment Option ARM		
Condition 3 (No Script)	AZ06	OH16
	AZ07	OH17
	AZ08	
Condition 4 (With Script)	AZ09	OH18
	AZ10	OH19
		OH20

To conduct the simulation portion of this test, staff gave all participants (1) a GFE and (2) a HUD-1. Testing staff gave participants a chance to review each document and then answered general questions to help get them familiar with the form. Next, staff gave half the participants a Settlement Script with loan details and settlement costs that corresponded to their GFE and HUD-1. The moderator for each session then read the entirety of the script aloud with the participant. Testing staff then asked both groups of participants a series of questions involving identification and comparison of their estimated and actual loan details and settlement costs as well as cost discrepancies to help determine if the script aided them in these tasks. Wherever possible, these comparison questions were identical for both the script and non-script participants.

In addition to simple line-item comparisons, several tolerance violations were included on the forms as notable discrepancies that would allow specific points of comparison across participant performance. All participants received GFE and HUD-1 forms that contained a 25 percent actual cost increase over the estimated costs on those charges that had a 10 percent increase tolerance limit. This increase was shown explicitly on the script but required a multi-step calculation to determine without the script. HUD-1 forms also included an increase in a charge categorized as not being able to increase at settlement.

# Round 6 Testing

In testing, staff recruited the test population to mirror the U.S. Census. As a part of the screening protocol, professional testing sites recruited participants based on the following criteria:

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

Additionally, staff screened participants based on their experiences in

- ▼ obtaining a mortgage (whether purchasing or refinancing a home) and
- ▼ shopping for a new mortgage loan.

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

For Test 2, once participants were selected (and after their participation), they were paid an incentive of \$50 (Cincinnati) or \$60 (Phoenix). Tables 54 and 55 provide demographics for Test 2.

# Round 6 Testing

**Table 54: Participant Demographics Information—Test 2**

Demographic Characteristics	Number in Sample	Percent
<b>Age</b>		
20 to 34	5	25
35 to 44	4	20
45 to 54	7	35
55 to 64	2	10
65 or older	2	10
<b>Race and Ethnicity*</b>		
Asian	0	0
White	14	70
Black or African American	4	20
Other (Native Hawaiian/Pacific Islander American, Indian/Alaskan Native, etc)	0	0
<i>* Participants were allowed to identify multiple ethnicities.</i>		
<b>Identified as Hispanic or Latino origin</b>	2	10
<b>Education—Highest Grade Completed</b>		
Less than High School	1	5
High School or GED	2	10
Some college or associate's degree	9	45
College graduate	5	25
Graduate School	3	15
<b>Household Income Per Year</b>		
Less than \$50,000	5	26
\$50,001 to \$75,000	6	32
\$75,001 to \$100,000	2	11
\$100,001 or more	6	32
<b>Marital Status and Gender</b>		
Single Male	2	10
Single Female	5	25
Married Male	7	35
Married Female	6	30
<b>Total Respondents</b>	<b>20</b>	<b>100 (20)</b>

In addition to the demographic requirements noted above, HUD requested to have two-thirds of the sample include experienced homebuyers who had bought or refinanced a home in the previous two years.

# Round 6 Testing

**Table 55: Homebuying Experience of the Sample**

Homebuying Experience	Number in Sample	Percent
Bought or refinanced in past 2 years		
Yes	14	70
No	6	30
Plan to buy or refinance in next year		
Yes	10	50
No	10	50
No response	0	0
Of those who plan to buy:*		
Have gone to open houses	9	45
Have contacted a real estate agent	4	20
Have pre-qualified for a mortgage loan	5	25
<i>* Participants were allowed to select as many options as applied to their situation</i>		
<b>N</b>	<b>20</b>	

## Study Questions for Test 2

Study questions for Test 2 included the following:

- ▼ Can participants find discrepancies between the GFE and the HUD-1?
- ▼ Can participants determine whether discrepancies are within tolerance limits?
- ▼ What are participant responses upon identifying that a discrepancy is outside tolerance limits?
- ▼ Does the Settlement Script help participants identify loan details?
- ▼ Does the Settlement Script function as a “crosswalk” to help participants compare GFE costs to actual HUD-1 costs?

# Round 6 Testing

## Analytical Approach

This section presents the combined analytical approach for both tests in Round 6.

### Qualitative Analysis

Because of the smaller sample size in Round 6, KCG did not perform any major statistical analyses on the results of the answer sheets or other data, but rather, used the results to look for qualitative trends. However, this report does provide some smaller scale percentages to help validate trends from the qualitative data.

### Databases

KCG created three Microsoft Access® databases to collect and analyze data. The first database was created during testing, and observers entered each participant's immediate responses to closed-ended questions into a Microsoft Access® database. Testing staff crosschecked participant answers to ensure accuracy. KCG then created comparison graphs from the data imported into this database. The results collected on the answer sheet showed how participants answered, but not why. Therefore, KCG created a second Microsoft Access® database of open-ended participant responses—organized by question number—taken from transcripts of testing sessions. This database allowed staff to look within each question for trends as to why participants answered a certain way. Using a grounded analytic approach, researchers then reviewed the transcripts as a whole and created a unique coding system for any emerging trends. After staff coded each transcript, results were compiled in a third Microsoft Access® database, and from this, researchers generated reports used in data analysis.

KCG then reviewed the data from the three databases and determined findings and recommendations from the data in relationship to earlier results as well as how well the GFE, HUD-1, and Settlement Script performed and possible areas for improvement.

# Round 6 Testing

## Summary of Findings

Overall, the majority of findings from Round 6 were consistent with the findings from Rounds 1–5. However, since the housing market and mortgage industry have changed since Round 5 testing, new concepts and themes emerged during Round 6 testing. For example, consumers

- ▼ were influenced by the media coverage of the mortgage industry,
- ▼ focused more on interest rates and loan terms,
- ▼ focused less on settlement charges,
- ▼ had high emotion,
- ▼ knew someone who has been affected by the current mortgage climate, and
- ▼ were more aware of—and cautious about—ARMs.

## Test 1—Revised GFE and Alternate GFE

### What Worked

**Design, layout, and language worked.** Overall, KCG found that the GFE is working. Participants understood the details (that it included a loan summary and estimates of settlement charges), characteristics of the document (that the numbers are estimates), and its purpose (to help consumers to shop).

- ▼ 100 percent correctly identified and described the initial amount of the mortgage offer and length of time they have to pay off the mortgage loan.
- ▼ 98 percent correctly identified initial interest rate.

**The design and language in the GFE worked.** Participants commented positively about design and language throughout test sessions. A few participants thought that something was missing from the Alternate GFE. However, many participants specifically liked the Revised GFE's length (4 pages), the layout of pages 1 and 2, the simplicity of the language, and the consumer-friendly language:

#### **Form length**

*... you don't have to go through 8 or 10 pages of documentation in order to get those important features out...I don't have to spend three hours and have an attorney go through it. (CO60)*

*This is shorter, it's not real long and it's easier to look at... (CO45)*

#### **Layout of pages 1 and 2**

*I do like page one, I mean its just clear and concise and everything is black and white... (CO41)*

*I like this way it's laid out because it's all very crisp and I feel like it's well-organized... (MA29)*

*Yeah page two...it lays it out really nicely. (CO42)*

# Round 6 Testing

## **Simplicity of language**

*...it is very simple to read...I like how it's presented. It is just very straightforward...* (GA13)

*It's in people's English instead of lawyer English.* (CO48)

*This is just very, very different and...certainly easier to read.* (MA21)

## **Consumer-friendly language**

*This seems a lot more consumer-oriented than I'm used to reading.* (MA21)

*It's self-explanatory and that's basic information. It's user-friendly.* (MA30)

*...It would be helpful to somebody who hasn't done it before. It's kind of refreshing to me..* (MA21)

**Participants were able to compare.** During the comparisons section, 90 percent of participants were able to identify correctly the highest and lowest settlement charges. The remaining 10 percent were able to identify the highest or the lowest, but not both. Participants remarked that standardization of the GFE helps them to compare GFEs:

*...this is easier because everything is the same, in the same place...* (GA01)

*They're very similar so they were easy to skim...* (GA03)

*...it seems like there's [often] a desire to make sure that nothing is standardized... you guys have been very good at making the forms look and appear to be the same...* (CO60)

**Trade-off bullets worked.** Participants understood the trade-off bullets and used the table during the comparisons section of the test:

*...you can pick from those three different options as to which one you're going to be going with and I can get that just from that table right here which is really kind of cool.* (MA26)

*Makes perfect sense. This table shows how the loan we've offered you compares...it's a comparison...* (GA08)

## **What Needs Work**

**Potential problem of lender bias exists.** Of the 15 participants that looked at one GFE with the lender charge lower and one with the broker charge higher, 80 percent understood that the lender is lower and the broker is higher; and 73 percent chose the one with the lower lender charge. In Round 5 testing, 92 percent understood that the lender is lower and 88 percent chose the one with the lower lender charge. Because of the small sample size in Round 6, this result has no statistical significance; however, the variation from Round 5 results should be kept in mind.

# Round 6 Testing

One reason why this change occurred in Round 6 is the introduction of the lender disclosure sentence (on page 2). Many participants were unclear about the implications of this lender sentence:

*It sounds like I have to come up with more money. I don't know if that comes out of my end or the next company that buys the loan. (MA25)*

*Does that mean that I have to give them an additional payment if they sell the loan? (GA13)*

*Am I suppose to receive the additional payment or am I suppose to pay additional payment? (CO58)*

**Dates were unclear.** Many participants in Round 6, Test 1 had difficulty with dates. Seventy percent of participants were able to say accurately how long the interest rate is available. The remaining 30 percent either gave a wrong date or were unsure.

*The days are confusing December the 3rd to the 17th I don't understand that. (GA16)*

*Is this 60 days, 90 days, and five years? I don't know what that means. It says your rate lock period is 60 days. That is not clear to me. (CO46)*

**Tolerances were unclear.** Many participants had trouble with the tolerances. Participants were not clear on the categories, missed the tolerances, and thought the tolerance applies to each item (instead of the sum of the items):

*I doubt [the tolerances] can change very much if it can change. (MA23)*

*...I don't get [the tolerances] from reading this at all...It's not explicitly spelled out that way... (MA34)*

**Next steps were unclear.** Many participants asked for more explicit instructions about the next steps. They were unclear on how to lock the GFE's rate.

*I think there needs to be a clearer set out way...this is what you have to do to lock in this rate...That may become obvious after you get this but it would be helpful to have it on this form... (GA10)*

*...what [does] it actually take to [lock the interest rate], is it a phone call, is it an email, do I have to fill something out, fax something..? (MA22)*

# Round 6 Testing

**Some terms raised questions.** While the majority of participants remarked that the language was clear in the GFE, participants were unsure of the meanings of Government Recording and Transfer Charges and Yield Spread Premium:

## **Government Recording and Transfer Charges**

*Is there such a thing...government recording and transfer charges for this transaction? (GA14)*

*I've never heard of government recording and transfer...well there's transfer fees but...I think that's maybe a certain percentage of the value of the home or something like that... (GA05)*

## **Yield Spread Premium**

*...I don't know what [YSP] means...That must be a very technical term for a simplified set of words that I don't know...that I can't relate. (CO60)*

*Yield spread premium...I really don't understand what it is. (GA13)*

**Shopping chart needs minor edits.** Many participants commented positively about the shopping chart, but some were not clear who would fill it out. One participant thought that six columns were too many for the chart.

*I think this is a chart for me to use to shop and compare. So they want you to fill in...That's pretty cool...I like that. (MA24)*

*I like the chart because it's clean, it's concise, I know exactly what I'm reading...The chart is easy to read. (CO45)*

## Test 2—Revised GFE, HUD-1, and Settlement Script

### What Worked

**Participants used the Settlement Script.** KCG found that of those participants who received the Script in addition to the GFE and HUD-1, most used it to compare and to answer questions about both loan details and settlement costs. Some used the Script in conjunction with the other documents they received, while many used the Script as their primary source of information.

**Design, layout, and language worked.** Participants reacted positively to the language used for the read-aloud portion of the Script, and generally thought the loan details were clear and easy to understand. The comparison chart format also generated positive feedback. Participants thought it facilitated comparisons and generally liked the concept of having their estimated and actual costs side-by-side. Overall, participants reacted positively to the Script's "read-aloud" format, appearing to be more attentive and engaged with the process when following along with the moderator than when asked to compare the forms on their own.

# Round 6 Testing

*I mean in this thing it actually kind of makes sense the way they explained it especially on page. Its very easy to understand. (AZ05)*

*The way things are outlined and charted is helpful and you can follow things easily from point to point. (OH15)*

**Settlement Script highlighted discrepancies between GFE and HUD-1.** The Settlement Script helped participants identify tolerances. Script participants were more likely to notice tolerance categories and more likely to question charge increases related to tolerance categories. In addition, a number of Script participants were able to detect the 25 percent increase tolerance violation during their initial review of the documents, while non-Script participants were unable to do so.

*Charges cannot increase, I was surprised to see increases because I thought they couldn't... (OH14)*

*The title services went up more than 10 percent...[The script] says it cannot increase more than 10 percent. Who would be paying these extra costs? (AZ04)*

When staff pointed out charge discrepancies to participants, a majority of the participants said they would, at the very least, question these charges at settlement, and at the most, attempt to halt settlement. Overall, results show the Settlement Script helped to highlight discrepancies for participants.

*...there are at least a couple things...above what they're allowed to be. (OH11)*

*...[charges are] listed as something that shouldn't increase more than 10 percent, so somewhere a transaction...has been calculated incorrectly. (OH15)*

## What Needs Work

**Participants have trouble navigating more than two documents.** Participants appeared to have difficulty manipulating more than two documents at a time. This fact inhibited performance when a third document, in this case the Settlement Script, was introduced.

**Settlement Script language and design need tweaks.** Participants suggested a few improvements to the Script. They noted a number of terms for which they required clarification. Participants also wanted to see the empty boxes on the forms filled in with some kind of placeholder that indicated that nothing was missing.

*...there are a lot of words on the Summary that are not clarified...I could read them but I wouldn't understand what they actually meant. (AZ10)*

*How come they didn't show...the amount of increase there?...I mean that category says dollar increase; shouldn't it show in there? (AZ09)*

# Round 6 Testing

## Recap of HUD's Goals for Testing

For Round 6, Test 1, HUD's goals were to

- ✓ **Confirm that participants can identify the basic information in the GFE**
  - All participants were able to identify the basic information on the GFE.
  
- ✓ **Determine if participants can make inferences from information within the GFE**
  - The majority of participants were able to make inferences from the information within the GFE.
  
- ✗ **Identify if consumers spontaneously use the shopping chart**
  - The majority of participants remarked positively about the shopping chart. However, only a few participants used the shopping chart during the test session.
  
- ✗ **Identify if participants can understand when a tolerance is set and when their choices can limit the tolerance requirement**
  - Many participants had difficulty understanding when a tolerance is set and when their choices can limit the tolerance requirement.
  
- ✓ **Determine how well participants can compare across GFEs**
  - Almost all participants were able to compare across the three GFEs. The standardization of the GFE format aided participants in the comparison task.
  
- ✓ **Identify if consumers can accurately identify the least and most expensive settlement costs when they see three GFEs**
  - Almost all consumers were able to gauge the least and most expensive settlement costs accurately.
  
- ✓ **Confirm that a broker bias does not exist when participants choose the least expensive settlement costs**
  - The GFE limits broker bias. One hundred percent of the participants who compared a GFE with a lower broker charge against a GFE with a higher lender charge understood that the broker charge was lower than the lender charge. When asked to choose between the two offers, 100 percent chose the GFE with the broker offer.

# Round 6 Testing

For Round 6, Test 2, HUD's goals were to

- ✓ **Confirm that participants can find discrepancies between the GFE and the HUD-1**
  - The large majority of participants were able to identify a discrepancy between the estimated and actual amount of a charge, and what this discrepancy was.
  
- ✓ **Confirm if participants can determine whether discrepancies are within tolerance limits**
  - The majority of participants were able to identify whether a charge was allowed to increase at settlement, based on the tolerance categories, and again this performance seemed equal between Script and non-Script participants. However, as discussed above in the summary of the findings, only Script participants were able to identify the actual 25 percent increase for those charges with a 10 percent tolerance.
  
- ✓ **Investigate participant response if identified discrepancy is outside tolerance limits**
  - Just over half of the participants said they would respond to the discrepancy in some way. At the least, they would question the charges, and, at the most, they would not continue with closing if they noticed charge increases like those apparent in the simulation. Whether this action would occur in a real-world situation is unknown, but the script seemed to facilitate consumer questions.
  
- ✗ **Investigate whether the Settlement Script helps participants to identify loan details**
  - Participants were able to identify their estimated loan details both with and without the aid of the Script. The majority also seemed capable of identifying their actual loan details when they were given the Script with their GFE or HUD-1. However, participant performance in identifying estimated loan detail decreased slightly when the Script was introduced, possibly due to the difficulty of navigating too much paperwork as is discussed in the findings.
  
- ✓ **Investigate whether the Settlement Script functions as a “crosswalk” to help consumers estimate GFE costs to actual HUD-1 costs**
  - Participant performance in this small sample did not significantly differ between Script and non-Script groups. The positive comments generated from the Script's “crosswalk” format indicated that this format was well received and perhaps even beneficial to consumers.

# Round 6 Testing

## Recommendations for Improving the Forms

### Test 1

#### GFE

- ▼ **Use the Revised GFE, not the Alternate GFE.** Because form length and YSP language seemed to cause problems during testing, continue to use the Revised GFE.
- ▼ **Add HUD logo.** Add the HUD logo to the GFE.
- ▼ **Add more space for email contact.**
- ▼ **Address date issues.** To address the date issues, pull all the dates into one section on page one.
- ▼ **Label information more clearly.** Label pages 3 and 4 as “Instructions and Important Information.”
- ▼ **Create an Instruction Sheet.** The instruction sheet is formed by pages 3 and 4. These pages incorporate information from pages 1 and 3 and information that HUD thought would be useful to consumers.
- ▼ **Address tolerance issue.** Change the format of the tolerance section into a three-column table-format.
- ▼ **Address next steps issue.** Add explicit language for “How to apply” to give more information on next steps.

### Test 2

#### Settlement Script

- ▼ **Edit language and design for clarity and consistency.** Clarify language and terms as much as possible, make the design consistent, and fill in blank boxes in table columns.
- ▼ **Refine instructions for the Script to help consumer and closing agent know which forms to look at in what order.** This refinement will help minimize navigation errors across documents.
- ▼ **Include a script and chart for each—Loan Details and Settlement Charges.** Including both these components in each section of the Script allows for the maximum benefits from both.

#### HUD-1

- ▼ **Consider redesigning the HUD-1 to more closely match the look and organization of the GFE.** This redesign will allow for easier cross-comparison between the two documents.
- ▼ **Build on the look and functionality of the Settlement Script when considering a HUD-1 redesign.**

# The GFE Today

The following pages illustrate the GFE as it appears after undergoing six rounds of qualitative and quantitative testing. Changes made to the GFE included:

- ▼ **Creating a fresher, more contemporary look for the GFE.** Design staff added color to help consumers see more readily how the GFE groups loan offer information. Other design improvements included adding the HUD logo to the header of page 1 and to the footers of pages 2 through 4.
- ▼ **Adding instructional information to the first page.** Staff created a new Instructions section on page 1 of the GFE.
- ▼ **Adding a section containing important dates to the first page.** In order to help consumers locate important dates more easily, staff added a new section to page one that put all the important dates in one place.
- ▼ **Providing a better layout for important information and instructions.** On pages 3 and 4, staff reorganized content and added new sections that would help consumers make better-informed decisions. Some of the changes to pages 3 and 4 included
  - creating additional instruction on shopping for a loan offer,
  - improving the layout of the charges that can and cannot change at settlement (tolerances),
  - creating a more understandable layout for comparing trade-offs, and
  - giving important information on the consumer's financial responsibilities as a homeowner, including estimates on such items as: (1) annual property taxes, (2) annual homeowner's insurance, (3) annual flood insurance, (4) homeowner's association/condominium fees, and (5) other annual fees and charges.
- ▼ **Providing better-organized information and instruction for the consumer in**
  - applying for the loan,
  - getting more information,
  - using the Mortgage Shopping Chart, and
  - knowing what happens if the lender sells the loan in the future.

- Added *Originator email*
- Removed *File or Loan Number*
- Added more space



# Good Faith Estimate (GFE)

- Added *Instructions*
- Moved some information to pg. 3, *Shopping for a loan offer*
- Moved date information to new section on pg. 1, *Important dates*

Name of Originator	Borrower
Originator Address	Property Address
Originator Phone Number	
Originator email	Date of GFE

## Instructions

This GFE gives you an estimate of your settlement charges and loan terms if you are approved for this loan. See page 3 for more detailed instructions.

## Important dates

1. The interest rate for this GFE is available until [ ] [ ] [ ] [ ]. After that date, the interest rate, some of your Loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
2. This estimate for all other settlement charges is available until [ ] [ ] [ ] [ ].
3. If you proceed with this loan, you must go to settlement in [ ] days. You must lock the interest rate at least [ ] days before settlement.

## Summary of your loan terms

- Combined three actionable dates to emphasize their importance
- Moved Item 1 from *About your GFE*
- Moved Item 2 from *About your GFE*
- Moved Item 3 from pg. 3, *Proceeding with this application*

Your Loan Details	
Your initial loan balance is	\$ [ ] [ ] [ ] [ ]
Your loan term is	[ ] years
Your initial interest rate is	[ ] %
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	\$ [ ] [ ] [ ] [ ] per month
Your rate lock period is <i>After you lock in your interest rate, you must go to settlement within this number of days to guarantee this interest rate.</i>	[ ] days
Can your interest rate rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of [ ] %
Can your loan balance rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of \$ [ ] [ ] [ ] [ ]
Can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of \$ [ ] [ ] [ ] [ ]
Does your loan have a prepayment penalty?	<input type="checkbox"/> No <input type="checkbox"/> Yes, your maximum prepayment penalty is \$ [ ] [ ] [ ] [ ]
Does your loan have a balloon payment?	<input type="checkbox"/> No <input type="checkbox"/> Yes, you have a balloon payment of \$ [ ] [ ] [ ] [ ] due in [ ] years.
Does your loan include a monthly escrow payment for property taxes and, possibly, other obligations?	<input type="checkbox"/> No <input type="checkbox"/> Yes

- Added a row about escrow payments to help homebuyers know all costs

## Summary of your settlement charges

- Added letters referencing sections on pg. 2 (*Your Adjusted Origination Charges and Your Charges for All Other Settlement Services*)

<b>A</b>	Your Adjusted Origination Charges (Table A, page 2)	\$ [ ] [ ] [ ] [ ]
<b>B</b>	Your Charges for All Other Settlement Services (Table B, page 2)	\$ [ ] [ ] [ ] [ ]
<b>A + B</b>	<b>Total Estimated Settlement Charges</b>	\$ [ ] [ ] [ ] [ ]

- Improved references to pg. 2 table

Understanding your estimated settlement charges

Moved language about lenders receiving payments for selling loans after settlement to pg. 4, *If your loan is sold in the future*

Your Loan Details	
1. Our service charge These charges are for the services we provide when we get and process this loan for you.	
2. Your credit or charge for the specific interest rate chosen (points) <input type="checkbox"/> The credit or charge for the interest rate you have chosen is included in "Our service charge." (See item 1 above.) <input type="checkbox"/> You receive a credit of \$ _____ for this interest rate of ____%. This credit reduces your upfront charges. <input type="checkbox"/> You pay a charge of \$ _____ for this interest rate of ____%. This payment (discount points) increases your upfront charges. (See the table on page 3 to see how you can change this charge or credit by choosing a different interest rate.)	
<b>A</b> 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.									
<table border="1"> <thead> <tr> <th>Service</th> <th>Charge</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>	Service	Charge							
Service	Charge								
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.									
<table border="1"> <thead> <tr> <th>Service</th> <th>Charge</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>	Service	Charge							
Service	Charge								
6. Government recording and transfer charges This includes state and local charges on mortgages and home sales.									
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>B</b> Your Charges for All Other Settlement Services	\$ _____								
<b>A + B</b> Total Estimated Settlement Charges	\$ _____								

Rewrote description

• Moved from pg. 1  
About your GFE

• Reorganized charges  
that can change at  
settlement

## Important Information and Instructions

Shopping for a  
loan offer

Only you can shop for the best loan for you. Compare this GFE with other loan offers, so you can find the best loan. Use the table on page 4 to compare all the offers you receive.

Understanding  
which charges  
can change at  
settlement

The GFE estimates your settlement charges. At your settlement, you will receive a HUD-1. Compare the charges on the HUD-1 with the charges on this GFE. Charges can change if you select your own provider and do not use the companies your lender suggests.

The list below shows you how much the estimated charges on this GFE can change at your closing.

• Rewrote first paragraph  
to emphasize the  
relationship of the GFE to  
the HUD-1 and their costs

These charges <b>cannot increase</b> at settlement:	The total of these charges <b>can increase up to 10%</b> at settlement:	These charges <b>can change</b> at settlement:
<ul style="list-style-type: none"> <li>• Our service charge</li> <li>• Your charge or credit for the specific interest rate chosen (after you lock in your interest rate)</li> <li>• Government recording and transfer charges</li> </ul>	<ul style="list-style-type: none"> <li>• Required services that we select</li> <li>• Title services and lender's title insurance (if we select them or you use providers identified by us)</li> <li>• Required services that you can shop for (if you use providers identified by us)</li> <li>• Optional owner's title insurance (if you use providers identified by us)</li> </ul>	<ul style="list-style-type: none"> <li>• Required services that you can shop for (if you do not use providers identified by us)</li> <li>• Title services and lender's title insurance (if you do not use providers identified by us)</li> <li>• Reserves or escrow</li> <li>• Daily interest rate charges</li> <li>• Homeowner's insurance</li> <li>• Optional owner's title insurance (if you do not use providers identified by us)</li> </ul>

• Moved tolerance  
information into a table  
format to emphasize  
three types of charges

## Looking at trade-offs

In this GFE, we offered you a particular interest rate and estimated settlement charges. But, you could choose other loans to get a lower interest rate or lower settlement charges.

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

• Moved section  
description before table  
to introduce the table

The table below shows how the loan for this GFE compares to two other options. If you decide you want to make one of these trade-offs, you must ask us for a new GFE.

	The loan in this GFE	A loan with a lower interest rate	A loan with lower settlement charges
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 charges by \$	Your higher interest rate will lower your settlement charges by \$
How much your total estimated settlement charges will be	\$	\$	\$

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

- Added a section to help homebuyers understand and identify other annual charges that affect their ability to afford a home

**Your financial responsibilities as a homeowner**

In addition to your monthly amount owed for principal, interest, and mortgage insurance, you may need to pay other required annual charges to keep your property. We must provide an estimate for annual property taxes along with homeowner's, flood, and other required property protection insurance, but we are not required to provide estimates for the other charges. You may have to identify the other charges and ask for additional estimates from others.

Different sources might use different techniques to estimate these charges, but the actual charges will be the same in the end. Therefore, do not use these estimates to compare settlement charges from different loan originators.

Annual property taxes	
Annual homeowner's insurance	
Annual flood insurance	
Annual homeowners association/condominium fees	
Other	
<b>Total Other Annual Charges</b>	

- Moved from pg. 3 of Revised GFE

**Applying for this loan**

If you decide you would like to apply for this loan, contact us at [redacted]. You must pay a fee of \$ [redacted]. This fee will be subtracted from your settlement charges.

**Getting more information**

The type of loan you choose can affect your current and future monthly payments. You can ask us for more information about loan types. You can also look at several government publications: HUD's *Special Information Booklet* on settlement charges, your *Truth-in-Lending Disclosures*, and consumer information publications of the Federal Reserve Board.

**Using the shopping chart**

Use this chart to compare Good Faith Estimates (GFEs) from different loan originators. Fill in the information by using a different column for each GFE you receive.

By comparing loan offers, you can shop for the best loan.

- Added a section to refer homebuyers to government publications about home buying.

	Loan 1	Loan 2	Loan 3	Loan 4
Loan Originator Name				
Initial Loan Balance				
Loan Term				
Initial Interest Rate				
Initial Monthly Amount Owed				
Rate Lock Period				
Can Interest Rate Rise?				
Can Loan Balance Rise?				
Can Monthly Amount Owed Rise?				
Prepayment Penalty?				
Balloon Payment?				
<b>Total Estimated Settlement Charges</b>				

- Reduced the number of columns from 6 to 4

**If your loan is sold in the future**

Lenders can receive additional fees by selling your loan at some future date after settlement. Once you have obtained your loan at settlement, however, your loan terms, adjusted origination charges, and total settlement charges cannot change. After settlement, any fees lenders receive in the future cannot change the loan you received or the charges you paid at settlement.

- Moved lender sentence from pg. 2, *Your credit or charge for a specific interest rate chosen* and added more information.



# Appendices

# Round 1 Baseline Forms

Good Faith Estimate (GFE) with Settlement Charges Summary



# 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
<b>Total Estimated Settlement Charges</b>	<b>\$5,700.00</b>

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	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> 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?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> No	

**Understanding  
Your Estimated  
Settlement  
Charges**

**Charges—Origination**

1. Our origination services charge <i>This amount cannot increase at settlement on your HUD-1 settlement statement.</i>	\$4,500.00
2. Your charge or credit for the specific interest rate chosen <input checked="" type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender <i>This amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate.</i>	-\$2,500.00
<b>Adjusted Origination Charge</b>	<b>\$2,000.00</b>

**Charges—All Other**

3. Third party services that we select	Cost	
Appraisal	\$300.00	
Credit Report	25.00	
Tax Service	75.00	
<i>These amounts cannot increase at settlement on your HUD-1 settlement statement.</i>		\$400.00
4. Title services and lender's title insurance <input type="checkbox"/> If we select your title services and title insurance, then this amount cannot increase at settlement on your HUD-1 settlement statement. <input type="checkbox"/> 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. <input type="checkbox"/> 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	Cost	
Survey	\$200.00	
<input type="checkbox"/> 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. <input type="checkbox"/> 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 <i>This amount cannot increase at settlement on your HUD-1 settlement statement.</i>		\$600.00
7. Reserves or escrow <i>This amount cannot increase at settlement more than 10% on your HUD-1 settlement statement, assuming you close by 3/31/03</i>		\$697.25
8. Per diem interest charges <i>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.</i>		\$102.75
9. Hazard insurance <i>This amount can change at settlement on your HUD-1 settlement statement.</i>		\$500.00
10. Optional owner's title insurance <i>This amount can change at settlement on your HUD-1 settlement statement.</i>		\$300.00
<b>All Other Charges</b>		<b>\$3,700.00</b>
<b>Total Estimated Settlement Charges</b>		<b>\$5,700.00</b>

### 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



# 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
<b>Total Estimated Settlement Charges</b>	<b>\$6,700.00</b>

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	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> 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?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> No	

**Understanding  
Your Estimated  
Settlement  
Charges**

**Charges—Origination**

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

**Charges—All Other**

3. Third party services that we select		
Service	Cost	
Appraisal	\$300.00	
Credit Report	25.00	
	75.00	
<i>These amounts cannot increase at settlement on your HUD-1 settlement statement.</i>		\$400.00
4. Title services and lender's title insurance <input type="checkbox"/> If we select your title services and title insurance, then <i>this amount cannot increase at settlement on your HUD-1 settlement statement.</i> <input type="checkbox"/> If we help you select your title services and title insurance, then <i>this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.</i> <input type="checkbox"/> If you select your own title services and title insurance, then <i>this amount can change at settlement on your HUD-1 settlement statement.</i>		\$900.00
5. Required third party services that you can shop for		
Service	Cost	
Survey	\$200.00	
<input type="checkbox"/> If we help you select the providers for these services, then <i>this amount cannot increase at settlement more than 10% on your HUD-1 settlement statement.</i> <input type="checkbox"/> If you select your own providers for these services, then <i>this amount can change at settlement on your HUD-1 settlement statement.</i>		\$200.00
6. Government taxes and fees <i>This amount cannot increase at settlement on your HUD-1 settlement statement.</i>		\$600.00
7. Reserves or escrow <i>This amount cannot increase at settlement more than 10% on your HUD-1 settlement statement, assuming you close by 3/13/03</i>		\$697.25
8. Per diem interest charges <i>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.</i>		\$102.75
9. Hazard insurance <i>This amount can change at settlement on your HUD-1 settlement statement.</i>		\$500.00
10. Optional owner's title insurance <i>This amount can change at settlement on your HUD-1 settlement statement.</i>		\$300.00
<b>All Other Charges</b>		<b>\$3,700.00</b>
<b>Total Estimated Settlement Charges</b>		<b>\$6,700.00</b>

SFE 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

# Round 1 Baseline Forms

Good Faith Estimate (GFE) Without Settlement Charges Summary



# 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	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> 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?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> No	

Understanding  
Your Estimated  
Settlement  
Charges

Charges—Origination

1. Our origination services charge <i>This amount cannot increase at settlement on your HUD-1 settlement statement.</i>	\$4,500. <sup>00</sup>
2. Your charge or credit for the specific interest rate chosen <input checked="" type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender <i>This amount can change at settlement on your HUD-1 settlement statement until you lock in your interest rate.</i>	-\$2,500. <sup>00</sup>
<b>Adjusted Origination Charge</b>	\$2,000. <sup>00</sup>

Charges—All Other

3. Third party services that we select		
Service	Cost	
Appraisal	\$300.00	
Credit Report	25.00	
Tax Service	75.00	
<i>These amounts cannot increase at settlement on your HUD-1 settlement statement.</i>		\$400.00
4. Title services and lender's title insurance <input type="checkbox"/> If we select your title services and title insurance, then this amount cannot increase at settlement on your HUD-1 settlement statement. <input type="checkbox"/> 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. <input type="checkbox"/> 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	
<input type="checkbox"/> 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. <input type="checkbox"/> 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 <i>This amount cannot increase at settlement on your HUD-1 settlement statement.</i>		\$600.00
7. Reserves or escrow <i>This amount cannot increase at settlement more than 10% on your HUD-1 settlement statement, assuming you close by 3/31/03</i>		\$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) <i>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.</i>		\$102.75
9. Hazard insurance <i>This amount can change at settlement on your HUD-1 settlement statement.</i>		\$500.00
10. Optional owner's title insurance <i>This amount can change at settlement on your HUD-1 settlement statement.</i>		\$300.00
<b>All Other Charges</b>		\$3,700.00
<b>Total Estimated Settlement Charges</b>		\$5,700.00

**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

# Round 1 Baseline Forms

Guaranteed Mortgage Package Agreement (GMPA)



# 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
<b>Total Estimated Settlement Charges</b>	<b>\$6,200.00</b>

Your loan amount will be:	\$ 100,000.00	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> 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?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> NO	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> NO	

### Understanding the Estimated Charges for Your Loan

#### Charge for Your Guaranteed Mortgage Package

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

#### Charges for Settlement Services Outside the Package

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

### 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 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).

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

# Forms Revised for Round 2

Good Faith Estimate (GFE)



# 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	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> 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?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> 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
<b>Total Estimated Settlement Charges</b>	<b>\$ 5,700.00</b>



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 <input checked="" type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)	-\$2,500.00
<b>A</b> 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 2/25/23).		\$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>B</b> Your Charges for All Other Settlement Services		\$3,700.00

<b>A + B = Total Estimated Settlement Charges</b>	<b>\$5,700.00</b>
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EE 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 <sup>.00</sup>	\$ 100,000 <sup>.00</sup>	\$ 100,000 <sup>.00</sup>
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 <sup>.00</sup>	Your higher interest rate will lower your settlement costs by \$1,000 <sup>.00</sup>
How much your total estimated settlement charges will be	\$ 5,700 <sup>.00</sup>	\$ 6,700 <sup>.00</sup>	\$ 4,700 <sup>.00</sup>

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 <sup>.00</sup>
Lender Charges	\$ 150 <sup>.00</sup>
<b>Our Service Charge</b>	<b>\$ 4,500<sup>.00</sup></b>

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

Title Agent Charges	\$ 675 <sup>.00</sup>
Title Insurance Premiums	\$ 225 <sup>.00</sup>
Other Title Charges	\$ —
<b>Title Services and Lender's Title Insurance</b>	<b>\$ 900<sup>.00</sup></b>



# 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 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.

<b>Your loan amount will be:</b>	\$ 100,000.00	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> 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?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> 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
<b>Total Estimated Settlement Charges</b>	<b>\$ 6,700.00</b>

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 <input type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)	
<b>A</b>	<b>Your Adjusted Origination Charges</b> \$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 3/25/08).		\$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>B</b>	<b>Your Charges for All Other Settlement Services</b>	<b>\$3,700.00</b>

**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. <sup>00</sup>	\$ 100,000. <sup>00</sup>	\$ 100,000. <sup>00</sup>
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. <sup>00</sup>	Your higher interest rate will lower your settlement costs by \$1,000. <sup>00</sup>
How much your total estimated settlement charges will be	\$ 6,700. <sup>00</sup>	\$ 7,700. <sup>00</sup>	\$ 5,700. <sup>00</sup>

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. <sup>00</sup>
<b>Our Service Charge</b>	<b>\$ 3,000.<sup>00</sup></b>

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

Title Agent Charges	\$ 675. <sup>00</sup>
Title Insurance Premiums	\$ 225. <sup>00</sup>
Other Title Charges	\$ —
<b>Title Services and Lender's Title Insurance</b>	<b>\$ 900.<sup>00</sup></b>

# Forms Revised for Round 2

Mortgage Package Offer (MPO)



# 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.

<b>Your loan amount will be:</b>		\$ <u>100,000.00</u>
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	<u>7.5%</u>	% 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	<u>30</u> years	_____ years
Your monthly payment for principal, interest, and any mortgage insurance	\$ <u>699.21</u>	\$ _____ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$ _____
Your APR	<u>7.71%</u>	_____ %
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> No	

### Your Settlement Costs

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



Understanding Your Settlement Charges

**Charge for Your Guaranteed Mortgage Package**

<p><b>1. Your Guaranteed Mortgage Package</b>          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:</p> <p><b>Your charges for loan origination</b>          These charges are for the services we provide when we get and process this loan for you.</p> <p><b>Third party settlement services</b>          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.</p> <p><b>Title services and lender's title insurance</b>          This charge includes the services of a settlement agent, for example, and title insurance to protect the lender, if required.</p> <p><b>Taxes and fees</b>          This charge includes state and local taxes and fees.</p>	
<b>Your Guaranteed Mortgage Package Charges</b> \$ 4,600. <sup>00</sup>	

**Your Estimated Charges for Settlement Services Outside the Package**

<p><b>2. Reserves or escrow</b>          This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.</p>	\$697.25
<p><b>3. Daily interest charges</b>          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 3/12/25).</p>	\$102.75
<p><b>4. Homeowner's insurance</b>          This charge is for the insurance you must buy for the property to protect from a loss such as fire.</p>	\$500.00
<p><b>5. Optional owner's title insurance</b>          This charge is for insurance you can choose to buy to protect yourself from title defects.</p>	\$300.00
<b>Your Estimated Charges for Settlement Services Outside the Package</b> \$ 1,600. <sup>00</sup>	
<b>Total Estimated Settlement Charges</b> \$ 6,200. <sup>00</sup>	

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	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Lender's Title Insurance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Property Appraisal	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Report	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



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

	The loan in this MPO	A loan with a lower interest rate	A loan with lower settlement costs
Your loan amount	\$ 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 \$ 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	\$ 6,200.00	\$ 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 <sup>Bank</sup> 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

Our Signature Bill Reid

Date 1/20/03

Your Signature \_\_\_\_\_

Date \_\_\_\_\_

# Forms Revised for Round 2

HUD-1

**A. Settlement Statement**

U.S. Department of Housing  
and Urban Development

OMB Approval No. 2502-0265

<b>B. Type of Loan</b>			6. File Number:	7. Loan Number:	8. Mortgage Insurance Case Number:
1. <input type="checkbox"/> FHA	2. <input type="checkbox"/> FmHA	3. <input checked="" type="checkbox"/> Conv. Unins.	123456	654-23	
4. <input type="checkbox"/> VA	5. <input type="checkbox"/> Conv. Ins.				

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

G. Property Location: 123 Fern Lane Anywhere, USA	H. Settlement Agent: Sara Netzer Place of Settlement: Proville 321 Main Street	I. Settlement Date: 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 <sup>00</sup>	401. Contract sales price	
102. Personal property		402. Personal property	
103. Settlement charges to borrower (line 1400)		403.	
104.		404.	
105.		405.	
<b>Adjustments for items paid by seller in advance</b>		<b>Adjustments for items paid by seller in advance</b>	
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 <sup>00</sup>	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 <sup>00</sup>	501. Excess deposit (see instructions)	
202. Principal amount of new loan(s)	\$105,000 <sup>00</sup>	502. Settlement charges to seller (line 1400)	\$7,200 <sup>00</sup>
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 behalf of borrower	\$2,500 <sup>00</sup>	506.	
207.		507.	
208.		508.	
209.		509.	
<b>Adjustments for items unpaid by seller</b>		<b>Adjustments for items unpaid by seller</b>	
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 <sup>00</sup>	520. Total Reduction Amount Due Seller	\$7,200 <sup>00</sup>
300. Cash At Settlement From/To Borrower		600. Cash At Settlement To/From Seller	
301. Gross Amount due from borrower (line 120)	\$128,300 <sup>00</sup>	601. Gross amount due to seller (line 420)	\$120,000 <sup>00</sup>
302. Less amounts paid by/for borrower (line 220)	(\$105,500)	602. Less reductions in amt. due seller (line 520)	(\$7,200 <sup>00</sup> )
303. Cash <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$22,800 <sup>00</sup>	603. Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller	\$112,800 <sup>00</sup>

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 mandatory.

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

700. Total Sales/Broker's Commission based on price \$ <u>120,000.00</u> @ <u>6%</u> = \$ <u>7,200.00</u>		Paid From Borrowers Funds at Settlement	Paid From Seller's Funds at Settlement
Division of Commission (line 700) as follows:			
701. \$ <u>3,600.00</u>	to <u>Best Homes Realty</u>		
702. \$ <u>3,600.00</u>	to <u>Reid Realty</u>		
703. Commission paid at Settlement			<u>\$7,200.00</u>
704.			
800. Items Payable In Connection With Loan			
801. Loan Origination Fee	%	<u>\$2,000.00</u>	
802. Loan Discount	%		
803. Appraisal Fee	to	<u>\$300.00</u>	
804. Credit Report	to	<u>25.00</u>	
805. Lender's Inspection Fee			
806. Mortgage Insurance Application Fee to			
807. Assumption Fee			
808. <u>Tax Service</u>		<u>\$75.00</u>	
809. <u>Underwriting Fee</u>		<u>\$1,000.00</u>	
810. <u>Loan Processing Fee</u>		<u>\$800.00</u>	
811. <u>Application Fee</u>		<u>\$700.00</u>	
900. Items Required By Lender To Be Paid In Advance			
901. Interest from <u>3/26/03</u> to <u>3/31/03</u> @ <u>20.55</u> day		<u>\$102.75</u>	
902. Mortgage Insurance Premium for <u>3</u> months to			
903. Hazard Insurance Premium for <u>3</u> years to		<u>\$500.00</u>	
904.			
905.			
1000. Reserves Deposited With Lender			
1001. Hazard insurance <u>2</u> months @ \$ <u>40.00</u> per month		<u>\$80.00</u>	
1002. Mortgage insurance	months @ \$	per month	
1003. City property taxes	months @ \$	per month	
1004. County property taxes <u>3</u> months @ \$ <u>205.75</u> per month		<u>\$617.25</u>	
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	<u>Pro Title</u>	<u>\$400.00</u>
1102. Abstract or title search	to	<u>Pro Title</u>	<u>175.00</u>
1103. Title examination	to	<u>Paramount Inc.</u>	<u>175.00</u>
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		<u>\$550.00</u>
(includes above items numbers:	)		
1109. Lender's coverage	\$ <u>150.00</u>		
1110. Owner's coverage	\$ <u>300.00</u>		
1111.			
1112.			
1113.			
1200. Government Recording and Transfer Charges			
1201. Recording fees: Deed \$ <u>50.00</u> ; Mortgage \$ <u>50.00</u> ; Releases \$		<u>\$100.00</u>	
1202. City/county tax/stamps: Deed \$ <u>250.00</u> ; Mortgage \$		<u>250.00</u>	
1203. State tax/stamps: Deed \$ ; Mortgage \$ <u>300.00</u>		<u>300.00</u>	
1204.			
1205.			
1300. Additional Settlement Charges			
1301. Survey	to	<u>\$200.00</u>	
1302. Pest inspection	to	<u>50.00</u>	
1303.			
1304.			
1305.			
1400. Total Settlement Charges (enter on lines 103, Section J and 502, Section K)		<u>\$8,300.00</u>	<u>\$7,200.00</u>

# Forms Revised for Round 2

Crosswalk

## 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-1 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-1 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. <i>Underwriting Fee \$1000.00</i> <i>Loan Processing Fee \$800.00</i> <i>Application Fee \$700.00</i>	<i>\$2,000.00</i>  <i>\$2,500.00</i>
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	<i>-\$2,500</i>	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.	<i>-\$2,500.00</i>
3. Third party services we select (Find the charges on your GFE for third party services we selected and enter them here) <i>Appraisal \$300.00</i> <i>Credit Report \$25.00</i> <i>Tax Service \$75.00</i>	<i>\$400.00</i>	803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges <i>Appraisal \$300.00</i> <i>Credit Report \$25.00</i> <i>Tax Service \$75.00</i> <i>Pest Inspection \$50.00</i>	<i>\$450.00</i>
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	<i>\$600.00</i>	1200-1299 Government Recording and Transfer Charges <i>Recording Fees \$100.00</i> <i>City/County Tax \$250.00</i> <i>State Stamp \$300.00</i>	<i>\$650.00</i>

**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. <i>Partitle \$400.00</i> <i>Partitle \$175.00</i> <i>Paramount \$175.00</i> <i>1108 - \$450.00 - \$300.00 =</i> <i>\$150.00</i>	
	<i>\$900.00</i>		<i>\$900.00</i>
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 <i>Hazard Insurance \$80.00</i> <i>County Property Tax \$617.25</i>	
	<i>\$697.25</i>		<i>\$697.25</i>

**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) <i>Survey \$200.00</i>		803-899 Items payable in connection with loan, 902 Mortgage insurance premium, and 1300-1399 Additional settlement charges <i>Survey \$200.00</i>	
	<i>\$200.00</i>		<i>\$200.00</i>
8. Daily interest charges	<i>\$102.75</i>	901 Interest from	<i>102.75</i>
9. Homeowner's insurance	<i>\$500.00</i>	903 Hazard insurance	<i>\$500.00</i>
10. Optional owner's title insurance	<i>\$300.00</i>	1110 Owner's coverage	<i>\$300.00</i>
<b>Total Estimated Settlement Charges</b>	<i>\$5,700.00</i>	<b>Total Settlement Charges</b>	<i>\$5,800.00</i>

# Forms Revised for Round 3

Good Faith Estimate (GFE)



# Good Faith Estimate of Settlement Costs (GFE)

## About Your GFE

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

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

This loan is being offered by \_\_\_\_\_

Please call us with any questions at \_\_\_\_\_

Your name \_\_\_\_\_ SSN \_\_\_\_\_

This loan is for property at this address \_\_\_\_\_

This GFE is valid for 10 business days from this date \_\_\_\_\_

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

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

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

### Your Settlement Costs

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

**Understanding  
Your  
Estimated  
Settlement  
Charges**

**Your Estimated Settlement Charges**

<b>1. Our service charge</b> This charge is for the services we provide when we process this loan for you.		
<b>2. Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services. <i>Service</i> <span style="float: right;"><i>Cost</i></span>		
<b>3. Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.		
<b>4. Required services that you can shop for</b> 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. <i>Service</i> <span style="float: right;"><i>Cost</i></span>		
<b>5. Taxes and fees</b> This charge includes state and local taxes and fees.		
<b>6. Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.		
<b>7. Daily interest charges</b> 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 ___/___/___).		
<b>8. Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.		
<b>9. Optional owner's title insurance</b> This charge is for insurance you can choose to buy to protect yourself from title defects.		
<b>Total Estimated Settlement Charges</b>		<b>\$</b>

**Charges That  
Can Change**

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

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

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

**These charges can change at settlement:**

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

**Discount Points**

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

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

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

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

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

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

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

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

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

# Forms Revised for Round 3

Mortgage Package Offer (MPO)



# Mortgage Package Offer (MPO)

## About Your MPO

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

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

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

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

This loan is being offered by \_\_\_\_\_

Please call us with any questions at \_\_\_\_\_

Your name \_\_\_\_\_ SSN \_\_\_\_\_

This loan is for property at this address \_\_\_\_\_

This MPO is valid for 10 business days from this date \_\_\_\_\_

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

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

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

### Your Settlement Costs

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

**Understanding  
Your  
Estimated  
Settlement  
Charges**

**Your Estimated Settlement Charges**

<p><b>1. Our service charge</b> This charge is for the services we provide when we process this loan for you.</p>										
<p><b>2. Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services.</p> <table border="1"> <thead> <tr> <th>Service</th> <th>Cost</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>		Service	Cost							
Service	Cost									
<p><b>3. Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.</p>										
<p><b>4. Required services that you can shop for</b> 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.</p> <table border="1"> <thead> <tr> <th>Service</th> <th>Cost</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>		Service	Cost							
Service	Cost									
<p><b>5. Taxes and fees</b> This charge includes state and local taxes and fees.</p>										
<p><b>6. Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.</p>										
<p><b>7. Daily interest charges</b> 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 ____/____/____).</p>										
<p><b>8. Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.</p>										
<p><b>9. Optional owner's title insurance</b> This charge is for insurance you can choose to buy to protect yourself from title defects.</p>										
<b>Total Estimated Settlement Charges</b>		<b>\$</b>								

**Charges That  
Can Change**

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

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

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

**These charges can change at settlement:**

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

**Discount Points**

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

**Yield Spread Premium**

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

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

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

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

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

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

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

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

# Forms Revised for Round 3

Good Faith Estimate (GFE) Crosswalk

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

### What is the purpose of this worksheet?

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

### How should you use the worksheet?

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

### Table 1

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

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

### Helpful Hints:

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

**Tables 2, 3, and 4**

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

**Table 2: Charges That Cannot Increase at Settlement**

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

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

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

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

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

**Table 4: Charges That Can Change at Settlement**

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

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

<b>Total Estimated Settlement Charges (A+B+C) Number should match GFE</b>		<b>Total Settlement Charges (D+E+F)</b>	
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# Forms Revised for Round 3

Mortgage Package Offer (MPO) Crosswalk

## **Worksheet for Comparing Your Estimated and Actual Settlement Charges from the Mortgage Package Offer (MPO) to the HUD-1**

### **What is the purpose of this worksheet?**

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

### **How should you use the table?**

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

### **How is the table organized?**

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

### **Helpful Hints:**

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

### Charges That Cannot Increase at Settlement

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

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

### Charges That May Vary Considerably from the MPO

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

Charges on Your MPO		Charges on Your HUD-1 Settlement Statement	
Description	Amount	Description	Amount
3. Reserves or escrow		1000-1099 Reserves Deposited with the Lender	
4. Daily interest charges (Use the total charges listed on your MPO)		901 Interest from	
5. Homeowner's insurance		903 Hazard insurance	
6. Optional owner's title insurance		1110 Owner's coverage	
<b>C   Subtotal from MPO</b>		<b>F   Subtotal from HUD-1</b>	
<b>Total Estimated Settlement Charges (A+B +C)</b> Number should match MPO		<b>Total Settlement Charges (D +E +F)</b>	

# Forms Revised for Round 3

Final Mortgage Package Offer (MPO)



# Mortgage Package Offer (MPO)

Name of Originator \_\_\_\_\_ Borrower \_\_\_\_\_  
 Phone \_\_\_\_\_ SSN \_\_\_\_\_  
 Address \_\_\_\_\_ Property Address \_\_\_\_\_  
 \_\_\_\_\_

## About Your MPO

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

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

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 terms and conditions of this MPO are valid for 10 business days from this date \_\_\_/\_\_\_/\_\_\_\_.

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

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

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

### Your Settlement Costs

Charge for Your Guaranteed Mortgage Package (item 1 on page 2)	_____
Charge or Credit for the Specific Interest Rate Chosen (item 2 on page 2)	_____
Estimated Charges for Settlement Services Outside the Package (items 3-6 on page 2)	_____
<b>Total Estimated Settlement Charges</b>	<b>\$ _____</b>

## Understanding Your Settlement Charges

### Charge for Your Guaranteed Mortgage Package

<p><b>1. Your guaranteed mortgage package</b>          Your guaranteed mortgage package is one fixed price for most of the services that you will need to get your loan. This price cannot change before settlement. This package includes the charges for the following services, if needed:</p> <p><b>Service charge</b>          This charge is for the services we provide when we process this loan for you.</p> <p><b>Other required settlement services</b>          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.</p> <p><b>Title services and lender's title insurance</b>          This charge includes the services of a settlement agent, for example, and title insurance to protect the lender, if required.</p> <p><b>Taxes and fees</b>          This charge includes state and local taxes and fees.</p>	
<b>Charge for Your Guaranteed Mortgage Package</b>	
\$	

### Charge or Credit for the Specific Interest Rate Chosen (Points)

<p><b>2. Charge or credit for the specific interest rate chosen</b>          ___ 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)</p>	
<b>Charge or Credit for the Specific Interest Rate Chosen</b>	
\$	

### Estimated Charges for Settlement Services Outside the Package

<p><b>3. Reserves or escrow</b>          This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.</p>	
<p><b>4. Daily interest charges</b>          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 ____/____/____).</p>	
<p><b>5. Homeowner's insurance</b>          This charge is for the insurance you must buy for the property to protect from a loss such as fire.</p>	
<p><b>6. Optional owner's title insurance</b>          This charge is for insurance you can choose to buy to protect yourself from title defects.</p>	
<b>Estimated Charges for Settlement Services Outside the Package</b>	
\$	
<b>Total Estimated Settlement Charges</b>	
\$	

### Charges That Can Change

All of the charges listed above can change at settlement **except** for the Charge for Your Guaranteed Mortgage Package. The Charge or Credit for the Specific Interest Rate Chosen can change until you lock in your interest rate.

### Services That Will Be in This Package

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

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

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

	<b>The loan in this MPO</b>	<b>A loan with a lower interest rate</b>	<b>A loan with lower settlement costs</b>
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. We may ask you for more information. Then we will complete the evaluation of your mortgage application. If you are approved, we will provide the mortgage loan and settlement services exactly as we've outlined in this offer.

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

From \_\_\_\_/\_\_\_\_/\_\_\_\_ until \_\_\_\_/\_\_\_\_/\_\_\_\_, the package price is still guaranteed, but the interest rate and points offered will float. The interest rate and points will stop floating when you lock them. You can find current interest rates and points options by going to:

If you do not accept by \_\_\_\_/\_\_\_\_/\_\_\_\_, this offer will expire.

\_\_\_\_\_  
Our Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Your Signature

\_\_\_\_\_  
Date

# Forms Revised for Round 4

Good Faith Estimate (GFE) With Yield Spread Premium



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Maple Street Bank Borrower Terry Treeless  
 Phone 555-111-2222 SSN 555-66-8888  
 Address 432 Acre Road Property Address 123 Fern Lane  
Somewhere, CO 81073 Anywhere, USA 70476

## About Your GFE

What is a GFE? This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

How should you use this GFE to shop for the best loan? You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan.

This terms and conditions of this GFE are valid for 10 business days from this date 1/23/04

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:	\$ <u>100,000.00</u>	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	<u>7.5</u> %	% 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	<u>30</u> years	_____ years
Your monthly payment for principal, interest, and any mortgage insurance	\$ <u>699.21</u>	\$ _____ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$ _____
Your rate lock period	<u>60</u> days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	\$ <u>3,000.00</u>
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	\$ <u>3,700.00</u>
<b>Total Estimated Settlement Charges</b>	<b>\$ <u>6,700.00</u></b>

Understanding  
Your  
Estimated  
Settlement  
Charges

**Your Charges for Loan Origination**

1. Our service charge These charges are for the services we provide when we get and process this loan for you.	\$ 3000.00
2. Your charge or credit for the specific interest rate chosen (Points) <input type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)	—
<b>A</b> Your Adjusted Origination Charges	<b>\$ 3,000.00</b>

**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	
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 title agent, for example, and title insurance to protect the lender, if required.		\$ 900.00
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	
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 3/27/04).		\$ 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>B</b> Your Charges for All Other Settlement Services		<b>\$ 3,700.00</b>

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

**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 section, depending upon who chooses the provider of the service.

**These charges 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)

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

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

**These charges 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)
6. Taxes and fees
7. Reserves or escrow
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.

**Proceeding with This Application**

If you would like to proceed with this mortgage application, you must pay a fee of \$ 350.00 which will be applied towards your settlement costs.

The interest rate and points on this GFE are available until 12/24/04. After that, they float until you lock. You must lock in the interest rate at least 5 days before settlement.



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Elm Financial Borrower Terry Treeless  
 Phone 222-555-1111 SSN 555-66-8888  
 Address 987 Yard Avenue Property Address 123 Fern Lane  
Somewhere, CO 20173 Anywhere, USA 70476

## About Your GFE

**What is a GFE?** This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

**How should you use this GFE to shop for the best loan?** You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan.

This terms and conditions of this GFE are valid for 10 business days from this date 1/23/04

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:	\$ <u>100,000.00</u>	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	<u>7.5</u> %	% 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	<u>30</u> years	_____ years
Your monthly payment for principal, interest, and any mortgage insurance	\$ <u>699.21</u>	\$ _____ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$ _____
Your rate lock period	<u>60</u> days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ _____ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ _____ due in _____ years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	<del>\$2,700.00</del>
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	<del>\$3,700.00</del>
<b>Total Estimated Settlement Charges</b>	<b>\$ <u>6,400.00</u></b>



Understanding  
Your  
Estimated  
Settlement  
Charges

Your Charges for Loan Origination

1. Our service charge These charges are for the services we provide when we get and process this loan for you.	\$4,500.00
2. Your charge or credit for the specific interest rate chosen (Points) <input type="checkbox"/> For a higher interest rate loan—the payment by the lender on your behalf that reduces the up-front charge you pay <input type="checkbox"/> For a lower interest rate loan—the additional up-front charge you pay the lender (discount points)	-\$1,800.00
<b>A</b> Your Adjusted Origination Charges	\$ 2,700.00

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	
Appraisal \$ 300.00	\$400.00
Credit Report \$ 25.00	
Tax Service \$ 75.00	
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.	\$ 900.00
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	
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 03/27/04).	\$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>B</b> Your Charges for All Other Settlement Services	\$ 3,700.00

<b>A + B = Total Estimated Settlement Charges</b>	<b>\$ 6,400.00</b>
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**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 section, depending upon who chooses the provider of the service.

**These charges 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)

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

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

**These charges 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)
6. Taxes and fees
7. Reserves or escrow
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	\$ 6,400.00	\$ 7,400.00	\$ 5,400.00

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.

**Proceeding with This Application**

If you would like to proceed with this mortgage application, you must pay a fee of \$350.00 which will be applied towards your settlement costs.

The interest rate and points on this GFE are available until 1/24/04. After that, they float until you lock. You must lock in the interest rate at least 5 days before settlement.

# Forms Revised for Round 5

Good Faith Estimate (GFE) with 2-Option Yield Spread Premium



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Olive Borrower John Smith  
 Phone (800) 593-5583 SSN 298-48-3811  
 Address 100 Main Street Property Address 300 Fifth Street  
Anytown, USA 32372 Anytown, USA 32372

## About Your GFE

**What is a GFE?** This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

**How should you use this GFE to shop for the best loan?** You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan.

This terms and conditions of this GFE are valid for 10 business days from this date 2 / 20 / 04.

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:	\$ 100,000.00	
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	6.0 %	% 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	\$ 599.55	\$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$
Your rate lock period	60 days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	\$2,900.00
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	\$3,700.00
<b>Total Estimated Settlement Charges</b>	<b>\$6,600.00</b>

**Understanding  
Your Estimated  
Settlement  
Charges**

**Your Charges for Loan Origination**

<p>1. <b>Our service charge</b> These charges are for the services we provide when we get and process this loan for you.</p>	<b>\$2,900.00</b>
<p>2. <b>Your credit or charge for the specific interest rate chosen (points)</b></p> <p><input type="checkbox"/> You receive a credit of \$ _____ for this interest rate of ____%. This credit reduces your upfront charges.</p> <p><input type="checkbox"/> You pay a charge of \$ _____ for this interest rate of ____%. This payment (discount points) increases your upfront charges.</p>	
<b>A</b>	<b>Your Adjusted Origination Charges \$2,900.00</b>

**Your Charges for All Other Settlement Services**

<p>3. <b>Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%; text-align: left;">Service</th> <th style="width: 10%; text-align: center;">Cost</th> <th style="width: 30%;"></th> </tr> </thead> <tbody> <tr> <td>Appraisal</td> <td style="text-align: right;">\$300.00</td> <td></td> </tr> <tr> <td>Credit Report</td> <td style="text-align: right;">\$25.00</td> <td></td> </tr> <tr> <td>Tax Service</td> <td style="text-align: right;">\$75.00</td> <td style="text-align: right; vertical-align: bottom;"><b>\$400.00</b></td> </tr> </tbody> </table>	Service	Cost		Appraisal	\$300.00		Credit Report	\$25.00		Tax Service	\$75.00	<b>\$400.00</b>	
Service	Cost												
Appraisal	\$300.00												
Credit Report	\$25.00												
Tax Service	\$75.00	<b>\$400.00</b>											
<p>4. <b>Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.</p>	<b>\$900.00</b>												
<p>5. <b>Required services that you can shop for</b> 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.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%; text-align: left;">Service</th> <th style="width: 10%; text-align: center;">Cost</th> <th style="width: 30%;"></th> </tr> </thead> <tbody> <tr> <td>Survey</td> <td style="text-align: right;">\$200.00</td> <td></td> </tr> <tr> <td> </td> <td></td> <td style="text-align: right; vertical-align: bottom;"><b>\$200.00</b></td> </tr> </tbody> </table>	Service	Cost		Survey	\$200.00				<b>\$200.00</b>				
Service	Cost												
Survey	\$200.00												
		<b>\$200.00</b>											
<p>6. <b>Taxes and fees</b> This charge includes state and local taxes and fees.</p>	<b>\$600.00</b>												
<p>7. <b>Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.</p>	<b>\$719.35</b>												
<p>8. <b>Daily interest charges</b> 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 \$16.13 per day for 5 days (if your closing date is <u>3</u> / <u>27</u> / <u>04</u>).</p>	<b>\$80.65</b>												
<p>9. <b>Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.</p>	<b>\$500.00</b>												
<p>10. <b>Optional owner's title insurance</b> This charge is for additional insurance you can choose to buy to protect yourself from title defects.</p>	<b>\$300.00</b>												
<b>B</b>	<b>Your Charges for All Other Settlement Services \$3,700.00</b>												

**A + B = Total Estimated Settlement Charges \$6,600.00**

### 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 section, depending upon who chooses the provider of the service.

**These charges *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)

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

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

**These charges *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)
6. Taxes and fees
7. Reserves or escrow
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

	<b>The loan in this GFE</b>	<b>A loan with a lower interest rate</b>	<b>A loan with lower settlement costs</b>
Your loan amount	\$100,000.00	\$ 100,000.00	\$ 100,000.00
Your interest rate	6.0 %	5.75 %	6.25 %
How much your monthly payment will be	\$ 599.55	\$ 583.57	\$ 615.72
How much more or less in monthly payments from this GFE	No Change	You will pay \$ 15.98 less every month	You will pay \$ 16.17 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	\$ 6,600.00	\$ 7,600.00	\$ 5,500.00

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.

### Proceeding with This Application

If you would like to proceed with this mortgage application, you must pay a fee of \$ 350.00 which will be applied toward your settlement costs.

The interest rate and points on this GFE are available until 3 / 1 / 04. After that, they float until you lock. You must lock in the interest rate at least **5** days before settlement.



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Palm Borrower John Smith  
 Phone (800) 593-5582 SSN 298-48-3811  
 Address 90 Main Street Property Address 300 Fifth Street  
Anytown, USA 32372 Anytown, USA 32372

## About Your GFE

**What is a GFE?** This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

**How should you use this GFE to shop for the best loan?** You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan.

This terms and conditions of this GFE are valid for 10 business days from this date 2 / 20 / 04.

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

<b>Your loan amount will be:</b>		<b>\$ 100,000.00</b>
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	6.0 %	% 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	\$ 599.55	\$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$
Your rate lock period	60 days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	\$2,400.00
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	\$3,700.00
<b>Total Estimated Settlement Charges</b>	<b>\$6,100.00</b>

**Understanding  
Your Estimated  
Settlement  
Charges**

**Your Charges for Loan Origination**

1. <b>Our service charge</b> These charges are for the services we provide when we get and process this loan for you.	\$4,500.00
2. <b>Your credit or charge for the specific interest rate chosen (points)</b> <input checked="" type="checkbox"/> You receive a credit of \$2,100.00 for this interest rate of 6 %. This credit reduces your upfront charges. <input type="checkbox"/> You pay a charge of \$ for this interest rate of %. This payment (discount points) increases your upfront charges.	-\$2,100.00
<b>A</b> Your Adjusted Origination Charges	\$2,400.00

**Your Charges for All Other Settlement Services**

3. <b>Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services.		
<i>Service</i>	<i>Cost</i>	
Appraisal	\$300.00	
Credit Report	\$25.00	
Tax Service	\$75.00	\$400.00
4. <b>Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.		\$900.00
5. <b>Required services that you can shop for</b> 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.		
<i>Service</i>	<i>Cost</i>	
Survey	\$200.00	
		\$200.00
6. <b>Taxes and fees</b> This charge includes state and local taxes and fees.		\$600.00
7. <b>Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.		\$719.35
8. <b>Daily interest charges</b> 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 \$16.13 per day for 5 days (if your closing date is 3/27/04).		\$80.65
9. <b>Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.		\$500.00
10. <b>Optional owner's title insurance</b> This charge is for additional insurance you can choose to buy to protect yourself from title defects.		\$300.00
<b>B</b> Your Charges for All Other Settlement Services		\$3,700.00

<b>A + B = Total Estimated Settlement Charges</b>	<b>\$6,100.00</b>
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### 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 section, depending upon who chooses the provider of the service.

**These charges *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)

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

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

**These charges *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)
6. Taxes and fees
7. Reserves or escrow
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

	<b>The loan in this GFE</b>	<b>A loan with a lower interest rate</b>	<b>A loan with lower settlement costs</b>
Your loan amount	\$100,000.00	\$ 100,000.00	\$ 100,000.00
Your interest rate	6.0 %	5.75 %	6.25 %
How much your monthly payment will be	\$ 599.55	\$ 583.57	\$ 615.72
How much more or less in monthly payments from this GFE	No Change	You will pay \$ 15.98 less every month	You will pay \$ 16.17 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	\$ 6,100.00	\$ 7,100.00	\$ 5,100.00

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.

### Proceeding with This Application

If you would like to proceed with this mortgage application, you must pay a fee of \$ 350.00 which will be applied toward your settlement costs.

The interest rate and points on this GFE are available until 3 / 1 / 04. After that, they float until you lock. You must lock in the interest rate at least **5** days before settlement.

# Forms Revised for Round 5

Good Faith Estimate (GFE) with 3-option Yield Spread Premium and  
Mortgage Shopping Chart



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Pear  
 Phone (800) 663-4131  
 Address 40 Main Street  
Anytown, USA 32372

Borrower John Smith  
 SSN 298-48-3811  
 Property Address 300 Fifth Street  
Anytown, USA 32372

## About Your GFE

**What is a GFE?** This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

**How should you use this GFE to shop for the best loan?** You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan. Use the table on Page 4 to compare all the offers you receive.

This terms and conditions of this GFE are valid for 10 business days from this date 2 / 20 / 04.

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

<b>Your loan amount will be:</b>		<b>\$ 100,000.00</b>
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	6.0 %	% 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	\$ 599.55	\$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$
Your rate lock period	60 days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	<b>\$2,900.00</b>
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	<b>\$3,700.00</b>
<b>Total Estimated Settlement Charges</b>	<b>\$6,600.00</b>

**Understanding  
Your Estimated  
Settlement  
Charges**

**Your Charges for Loan Origination**

1. Our service charge These charges are for the services we provide when we get and process this loan for you.	\$2,900.00
2. Your credit or charge for the specific interest rate chosen (points) <input checked="" type="checkbox"/> The credit or charge for the interest rate you have chosen is included in "Our service charge." (See item 1 above) <input type="checkbox"/> You receive a credit of \$ _____ for this interest rate of ____%. This credit reduces your upfront charges. <input type="checkbox"/> You pay a charge of \$ _____ for this interest rate of ____%. This payment (discount points) increases your upfront charges. (See the table on page 3 to see how you can change this charge or credit by choosing a different interest rate.)	\$0.00
<b>A</b> Your Adjusted Origination Charges	<b>\$2,900.00</b>

**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
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 title agent, for example, and title insurance to protect the lender, if required.	\$900.00
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
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.	\$719.35
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 \$ 16.13 per day for 5 days (if your closing date is <u>3 / 27 / 04</u> ).	\$80.65
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>B</b> Your Charges for All Other Settlement Services	<b>\$3,700.00</b>

**A + B = Total Estimated Settlement Charges \$ 6,600.00**

### 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 section, depending upon who chooses the provider of the service.

**These charges 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)

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

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

**These charges 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)
6. Taxes and fees
7. Reserves or escrow
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

	<b>The loan in this GFE</b>	<b>A loan with a lower interest rate</b>	<b>A loan with lower settlement costs</b>
Your loan amount	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00
Your interest rate	6.0 %	5.75 %	6.25 %
How much your monthly payment will be	\$ 599.55	\$ 583.57	\$ 615.72
How much more or less in monthly payments from this GFE	No Change	You will pay \$ 15.98 less every month	You will pay \$ 16.17 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	\$ 6,600.00	\$ 7,600.00	\$ 5,600.00

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.

### Proceeding with This Application

If you would like to proceed with this mortgage application, you must pay a fee of \$ 350.00 which will be applied toward your settlement costs.

The interest rate and points on this GFE are available until 3 / 1 / 04. After that, they float until you lock. You must lock in the interest rate at least 5 days before settlement.

# Mortgage Shopping Chart

- Use this chart to compare Good Faith Estimates (GFEs). Fill out the information by using a different column for each GFE.
- By comparing loan offers, you can shop for the best loan offers, you can shop for the best loan.

	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5	Loan 6
Loan Originator Name						

## Loan Details

Loan Amount						
Interest Rate						
Loan Term						
Monthly Payment						

## Settlement Costs

Adjusted Origination Charge						
Charges for All Other Settlement Services						
<b>Total Estimated Settlement Charges</b>						



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Cedar  
 Phone (800) 663-4132  
 Address 30 Main Street  
Anytown, USA 32372

Borrower John Smith  
 SSN 298-48-3811  
 Property Address 300 Fifth Street  
Anytown, USA 32372

## About Your GFE

**What is a GFE?** This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

**How should you use this GFE to shop for the best loan?** You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan. Use the table on Page 4 to compare all the offers you receive.

This terms and conditions of this GFE are valid for 10 business days from this date 2 / 20 / 04.

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

<b>Your loan amount will be:</b>		<b>\$ 100,000.00</b>
Your loan is	<input checked="" type="checkbox"/> A Fixed Rate Loan	<input type="checkbox"/> An Adjustable Rate Loan
Your interest rate	6.0 %	% 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	\$ 599.55	\$ The maximum your monthly payment for principal, interest, and any mortgage insurance could be is \$
Your rate lock period	60 days. After you lock in your interest rate, you must go to settlement within this number of days to be guaranteed this interest rate.	
Does your loan have a prepayment penalty?	<input type="checkbox"/> Yes, your maximum prepayment penalty is \$ <input checked="" type="checkbox"/> No	
Does your loan have a balloon payment?	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years. <input checked="" type="checkbox"/> No	

The interest rate and monthly payment 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)	<b>\$2,400.00</b>
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	<b>\$3,700.00</b>
<b>Total Estimated Settlement Charges</b>	<b>\$6,100.00</b>

**Understanding  
Your Estimated  
Settlement  
Charges**

**Your Charges for Loan Origination**

1. <b>Our service charge</b> These charges are for the services we provide when we get and process this loan for you.	<b>\$4,500.00</b>
2. <b>Your credit or charge for the specific interest rate chosen (points)</b> <input type="checkbox"/> The credit or charge for the interest rate you have chosen is included in "Our service charge." (See item 1 above) <input checked="" type="checkbox"/> You receive a credit of <b>\$2,100.00</b> for this interest rate of <b>6 %</b> . This credit reduces your upfront charges. <input type="checkbox"/> You pay a charge of \$ _____ for this interest rate of _____ %. This payment (discount points) increases your upfront charges. <i>(See the table on page 3 to see how you can change this charge or credit by choosing a different interest rate.)</i>	<b>-\$2,100.00</b>
<b>A</b>	<b>Your Adjusted Origination Charges \$2,400.00</b>

**Your Charges for All Other Settlement Services**

3. <b>Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services.		
<i>Service</i>	<i>Cost</i>	
Appraisal	<b>\$300.00</b>	
Credit Report	<b>\$25.00</b>	
Tax Service	<b>\$75.00</b>	<b>\$400.00</b>
4. <b>Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.		<b>\$900.00</b>
5. <b>Required services that you can shop for</b> 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.		
<i>Service</i>	<i>Cost</i>	
Survey	<b>\$200.00</b>	
		<b>\$200.00</b>
6. <b>Taxes and fees</b> This charge includes state and local taxes and fees.		<b>\$600.00</b>
7. <b>Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.		<b>\$719.35</b>
8. <b>Daily interest charges</b> 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 \$ <b>16.13</b> per day for <b>5</b> days (if your closing date is <u>3 / 27/04</u> ).		<b>\$80.65</b>
9. <b>Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.		<b>\$500.00</b>
10. <b>Optional owner's title insurance</b> This charge is for additional insurance you can choose to buy to protect yourself from title defects.		<b>\$300.00</b>
<b>B</b>	<b>Your Charges for All Other Settlement Services</b>	<b>\$3,700.00</b>

<b>A + B = Total Estimated Settlement Charges</b>	<b>\$6,100.00</b>
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### 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 section, depending upon who chooses the provider of the service.

**These charges 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)

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

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

**These charges 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)
6. Taxes and fees
7. Reserves or escrow
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

	<i>The loan in this GFE</i>	<i>A loan with a lower interest rate</i>	<i>A loan with lower settlement costs</i>
Your loan amount	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00
Your interest rate	6.0 %	5.75 %	6.25 %
How much your monthly payment will be	\$ 599.55	\$ 583.57	\$ 615.72
How much more or less in monthly payments from this GFE	No Change	You will pay \$ 15.98 less every month	You will pay \$ 16.17 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	\$ 6,100.00	\$ 7,100.00	\$ 5,100.00

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.

### Proceeding with This Application

If you would like to proceed with this mortgage application, you must pay a fee of \$ 350.00 which will be applied toward your settlement costs.

The interest rate and points on this GFE are available until 3 / 1 / 04. After that, they float until you lock. You must lock in the interest rate at least **5** days before settlement.

# Mortgage Shopping Chart

- Use this chart to compare Good Faith Estimates (GFEs). Fill out the information by using a different column for each GFE.
- By comparing loan offers, you can shop for the best loan offers, you can shop for the best loan.

	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5	Loan 6
Loan Originator Name						

## Loan Details

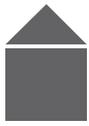
Loan Amount						
Interest Rate						
Loan Term						
Monthly Payment						

## Settlement Costs

Adjusted Origination Charge						
Charges for All Other Settlement Services						
<b>Total Estimated Settlement Charges</b> ▲						

# Forms Revised for Round 6

Revised Good Faith Estimate (GFE) with 3-Option Yield Spread Premium



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator Ocean Financial Borrower Terry Treeless  
 Originator Address 300 Water Drive Property Address 100 Land Drive  
Anywhere, USA 12345 Anywhere, USA 12345  
 Originator Phone Number 888-333-3434 File or Loan Number 555-66-8888

## About Your GFE

**What is a GFE?** This GFE gives you an estimate of your settlement costs and loan terms if you are approved for this loan.

**How should you use this GFE to shop for the best loan?** You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. By comparing loan offers, you can shop for the best loan. Use the table on page 4 to compare all the offers you receive.

The interest rate for this GFE is available until 12 / 03 / 07. After that date, the interest rate, some of your Loan Originator Charges, and the monthly payment shown below can change until you lock your interest rate. This estimate of your charges for all other settlement services is available until 12 / 17 / 07.

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

## Summary of Your Loan Terms for This Estimate

### Your Loan Details

Your initial loan amount is	\$ 100,000.00
Your loan term is	30 years
Your initial interest rate is	6 %
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	\$ 599.55 per month
Your rate lock period is <i>After you lock in your interest rate, you must go to settlement within this number of days to guarantee this interest rate.</i>	60 days

Can your interest rate rise?	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of %
Can your loan balance rise?	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of \$
Can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes, it can rise to a maximum of \$
Does your loan have a prepayment penalty?	<input type="checkbox"/> No	<input checked="" type="checkbox"/> Yes, your maximum prepayment penalty is \$ 2,000.00
Does your loan have a balloon payment?	<input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes, you have a balloon payment of \$ due in years.

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

### Your Settlement Costs

Your Adjusted Origination Charges (see items 1 and 2 on page 2)	2,300.00
Your Charges for All Other Settlement Services (see items 3 through 10 on page 2)	3,700.00
<b>Total Estimated Settlement Charges</b>	<b>\$ 6,000.00</b>

**Understanding  
Your Estimated  
Settlement  
Charges**

**Your Charges for Loan Origination**

<b>1. Our service charge</b> These charges are for the services we provide when we get and process this loan for you.	4,500.00
<b>2. Your credit or charge for the specific interest rate chosen (points)</b> <input type="checkbox"/> The credit or charge for the interest rate you have chosen is included in "Our service charge." (See item 1 above.) Lenders may also receive an additional payment if they sell your loan after settlement. <input checked="" type="checkbox"/> You receive a credit of \$ 2,200.00 for this interest rate of 6 %. This credit reduces your upfront charges. <input type="checkbox"/> You pay a charge of \$ for this interest rate of % . This payment (discount points) increases your upfront charges. (See the table on page 3 to see how you can change this credit or charge by choosing a different interest rate.)	-2,200.00
<b>A</b>	<b>Your Adjusted Origination Charges</b> \$ 2,300.00

**Your Charges for All Other Settlement Services**

<b>3. Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services. <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Service</th> <th style="text-align: left; border-bottom: 1px solid black;">Cost</th> </tr> </thead> <tbody> <tr> <td style="border-right: 1px solid black; padding: 2px 5px;">Appraisal</td> <td style="padding: 2px 5px;">300.00</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 2px 5px;">Credit Report</td> <td style="padding: 2px 5px;">25.00</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 2px 5px;">Tax Service</td> <td style="padding: 2px 5px;">75.00</td> </tr> </tbody> </table>	Service	Cost	Appraisal	300.00	Credit Report	25.00	Tax Service	75.00	400.00
Service	Cost								
Appraisal	300.00								
Credit Report	25.00								
Tax Service	75.00								
<b>4. Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.	900.00								
<b>5. Required services that you can shop for</b> These charges are for other services that are required to complete your settlement. We can refer you to providers of these services or you can shop for them yourself. Our estimates for providing these services are below. <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Service</th> <th style="text-align: left; border-bottom: 1px solid black;">Cost</th> </tr> </thead> <tbody> <tr> <td style="border-right: 1px solid black; padding: 2px 5px;">Survey</td> <td style="padding: 2px 5px;">200.00</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 2px 5px;"> </td> <td style="padding: 2px 5px;"> </td> </tr> <tr> <td style="border-right: 1px solid black; padding: 2px 5px;"> </td> <td style="padding: 2px 5px;"> </td> </tr> </tbody> </table>	Service	Cost	Survey	200.00					200.00
Service	Cost								
Survey	200.00								
<b>6. Government recording and transfer charges</b> This charge includes state and local transfer taxes and fees.	600.00								
<b>7. Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.	719.35								
<b>8. Daily interest charges</b> 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 \$ 16.13 per day for 5 days (if your closing date is <u>01 / 27 / 08</u> ).	80.65								
<b>9. Homeowner's insurance</b> This charge is for the insurance you must buy to protect the property from a loss, such as fire.	500.00								
<b>10. Optional owner's title insurance</b> This charge is for additional insurance you can choose to buy to protect yourself from title defects.	300.00								
<b>B</b>	<b>Your Charges for All Other Settlement Services</b> \$ 3,700.00								
<b>A + B = Total Estimated Settlement Charges</b> \$ 6,000.00									

## 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 section, depending on who chooses the provider of the service.

### **These charges cannot increase at settlement:**

- Our service charge
- Your charge or credit for the specific interest rate chosen (after you lock in your interest rate)
- Government recording and transfer charges

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

- Required services that we select
- Title services and lender's title insurance (if we select them or you use providers identified by us)
- Required services that you can shop for (if you use providers identified by us)
- Optional owner's title insurance (if you use a provider identified by us)

### **These charges can change at settlement:**

- Title services and lender's title insurance (if you do not use a provider identified by us)
- Required services that you can shop for (if you do not use a provider identified by us)
- Reserves or escrow
- Daily interest rate charges
- Homeowner's insurance
- Optional owner's title insurance (if you do not use a provider identified by us)

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

	<b>The loan in this GFE</b>	<b>A loan with a lower interest rate</b>	<b>A loan with lower settlement costs</b>
Your loan amount	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00
Your interest rate	6.0 %	5.75 %	6.25 %
How much your monthly payment will be	\$ 599.55	\$ 583.57	\$ 615.00
How much more or less in monthly payments from this GFE	No Change	You will pay \$15.98 less every month	You will pay \$16.17 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	\$ 6,000.00	\$ 7,000.00	\$ 5,000.00

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 and monthly payment before any adjustments are made.

## Proceeding with This Application

If you would like to proceed with this mortgage application, you must pay a fee of \$ 350.00 which will be applied toward your settlement costs.

The interest rate and points on this GFE are available until 12/03/07. After that, they float until you lock. You must lock in the interest rate at least **5** days before settlement.

# Mortgage Shopping Chart

Use this chart to compare Good Faith Estimates (GFEs). Fill out the information by using a different column for each GFE.

By comparing offers for similar loan products, you can shop for the best loan.

	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5	Loan 6
Loan Originator Name						
<b>Loan Details</b>	<b>Loan #1</b>	<b>Loan #2</b>	<b>Loan #3</b>	<b>Loan #4</b>	<b>Loan #5</b>	<b>Loan #6</b>
Initial Loan Amount	\$	\$	\$	\$	\$	\$
Loan Term	Years	Years	Years	Years	Years	Years
Initial Interest Rate	%	%	%	%	%	%
Initial Monthly Amount Owed	\$	\$	\$	\$	\$	\$
Rate Lock Period	days	days	days	days	days	days
Can Interest Rate Rise?	No Yes					
Can Loan Balance Rise?	No Yes					
Can Monthly Amount Owed Rise?	No Yes					
Prepayment Penalty?	No Yes					
Balloon Payment?	No Yes					
<b>Total Estimated Settlement Charges</b>						

# Forms Revised for Round 6

Alternate Good Faith Estimate (GFE)



# Good Faith Estimate of Settlement Costs (GFE)

Name of Originator River Financial Borrower Terry Treeless  
 Originator Address 300 Water Drive Property Address 100 Land Drive  
Anywhere, USA 12345 Anywhere, USA 12345  
 Originator Phone Number 888-333-3434 File or Loan Number 555-66-8888

## How to Use This GFE

This is a Good Faith Estimate of mortgage loan settlement charges and loan terms if you are approved for this mortgage loan from us. This estimate is based on information you provided to us. If you decide to use us for this mortgage loan, we may require additional information to determine if you qualify for this loan.

You are the only one who can shop for the best loan for you. You should compare this GFE with other loan offers. At closing, you should compare your GFE with the *HUD-1 Settlement Statement*.

The interest rate for this GFE is available until 12/03/07. After that date, the interest rate, some of your Loan Originator Charges, and the monthly payment shown below can change until you lock your interest rate. This estimate of your charges for all other settlement services is available until 12/17/07.

Comparisons among loans of different types can be complicated. The type of loan you choose can significantly affect your current and future monthly payments. For more information about loan types, ask your loan originator, and see HUD's *Special Information Booklet* on settlement costs, your *Truth-in-Lending Disclosures*, and consumer information publications of the Federal Reserve Board.

## Summary of Terms for This Estimate

Your Loan Amount: \$100,000.00 Your loan term: 30 years  
 Type of Loan: Conventional Conforming

Your interest rate is:	<input checked="" type="checkbox"/> Fixed at <u>6</u> % <input type="checkbox"/> _____ % initially, then it will adjust
Monthly mortgage insurance, if any:	\$ 0.00
Your initial monthly amount owed for principal and interest: <i>Your actual monthly payment may also include taxes and insurance.</i>	\$ 599.55
Can your monthly amount owed for principal and interest increase? <i>If yes, this amount owed may first change in _____ months, and your maximum amount owed could be \$ _____.</i>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Can your loan balance rise? <i>If yes, it can rise to a maximum of \$ _____.</i>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does your loan have a prepayment penalty? <i>If yes, your maximum prepayment penalty is \$ <u>2,000.00</u> _____.</i>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does your loan have a balloon payment? <i>If yes, you have a balloon payment of \$ _____ due in _____ years.</i>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
After you lock your interest rate, you must go to settlement within <u>60</u> days or the lock on your interest rate will expire and your interest rate may change.	

## Your Settlement Costs

Total Adjusted Origination Charges (see Section A on page 2)	2,300.00
Total for Third Party Charges and Other Charges (see Sections B and C on page 2)	3,700.00
<b>Total Estimated Settlement Charges</b> <i>(same as line 1400 on page 2)</i>	<b>\$ 6,000.00</b>

**Mortgage Loan  
Settlement  
Charges to  
Be Paid**

Compare these costs to Section L (Lines 800–1400) on the HUD-1 Settlement Statement.

<p><b>Section A. Loan Originator Charges</b>  <i>Note: Total Loan Origination Charges listed in A-1 below should not vary at closing. Because any Discount Points and Yield Spread Premium amounts are based on your interest rate, they will vary until you lock your rate. "Discount Points" (A-2) are paid by you to reduce the interest rate on your loan and are added to the Loan Originator's Charges to calculate your upfront charges. The "Yield Spread Premium" (A-3) is based on the interest rate for your loan, and is paid directly to the mortgage broker by the lender, and reduces your upfront charges at settlement. Lenders may also receive an additional payment if they sell your loan after settlement.</i></p> <ul style="list-style-type: none"> <li>■ If you want to choose a loan with a <b>lower interest rate</b>, then you will have <b>higher settlement costs</b>.</li> <li>■ If you want to choose a loan with <b>lower settlement costs</b>, then you will have a <b>higher interest rate</b>.</li> </ul>	
<b>800. Adjusted Loan Origination Calculation</b>	
A-1 Total Loan Origination Charges for loan processing	4,500.00
A-2 Discount Points paid to reduce your interest rate	
A-3 Yield Spread Premium paid to reduce your upfront charges at settlement	-2,200.00
<b>Total for Section A. Adjusted Loan Origination Charges:</b>	<b>2,300.00</b>
<p><b>Section B. Third Party Charges</b>  <i>Note: At closing, the Total Third Party Charges listed in Section B should not vary by more than 10% if you used the service providers required by or recommended by the loan originator.</i></p>	
<b>900. Credit Report, Appraisal, and Inspection Charges</b> for credit reports, appraisals, pest inspections, lender inspections, and other charges required by the lender	600.00
<b>950. Mortgage Insurance Charges</b> to be paid in advance	
<b>1000. Title Charges for Lender's Title Insurance</b> , title related services and closing services (Note: If you are refinancing, you may be entitled to a reduced title insurance premium.)	900.00
<b>1050. Optional Owner's Title Insurance</b> for this transaction	300.00
<b>Total for Section B. Third Party Charges:</b>	<b>1,800.00</b>
<p><b>Section C. Other Charges</b>  <i>Note: Charges listed in Section C may vary at closing, except for charges listed on line 1200.</i></p>	
<b>1100. Flood Insurance Charges</b> to be paid in advance	
<b>1150. Homeowner's Insurance Charges</b> to be paid in advance	500.00
<b>1200. Government Recording and Transfer Charges</b> for this transaction (These charges may not vary at closing.)	600.00
<b>1250. Daily Interest Charges</b> for this transaction	80.65
<b>1300. Escrow Charges/Reserves</b> to establish an escrow account for taxes, insurance premiums, and other charges	719.35
<b>Total for Section C. Other Charges:</b>	<b>1,900.00</b>
<b>1400. Total Estimated Settlement Charges</b> (Sections A, B, and C)	<b>6,000.00</b>

# Forms Revised for Round 6

HUD-1



# Forms Revised for Round 6

Settlement Script

## These Are Your Loan Details

The following is a summary of many important details involving the mortgage loan for **123 Main Street, Anywhere, USA 12345**. Let's compare these important details with the Good Faith Estimate (GFE), loan documents, and other disclosures.

Loan Amount	Loan Term	Loan Type
\$100,000.00	30 year	Conventional Adjustable Payment Option Mortgage

### Adjustable Interest Rate with Initial Discounted Interest Rate

Your initial interest rate is **1.5%**. This is a discounted interest rate and will adjust to **6.5%** in **33 days** on **March 1, 2008**.

Your loan has an adjustable interest rate which means that the interest rate can rise over the life of the loan.

Your second change date will be **April 1, 2009** and may change every **12 months** thereafter.

Your interest rate can increase or decrease by **2.75%** on every change date, but is guaranteed to never be lower than **4.5%** or higher than **10.5%** over the life of the loan.

### Payment

Your initial loan payment for principal and interest is **\$345.12** and can rise.

Your initial loan payment for principal and interest and mortgage insurance is **\$345.12** and **can rise to a maximum of \$1,180.23**.

*(see page 1 of the GFE)*

You do not have an escrow account. Any and all items such as property taxes and homeowner's insurance must be paid directly by you.

Your total initial loan payment is **\$345.12**.

### Payment Option Mortgage

This type of loan allows you to choose from three payment options; the traditional principal and interest payment, the interest-only payment, and the minimum interest payment. This is what your initial payment choice will look like:

Principal & Interest Payment at 6.5%:	<u>\$742.97</u>
(reduces loan balance)	<u>\$110.90</u> principal, <u>\$632.07</u> interest
Interest-Only Payment at 6.5%:	<u>\$632.07</u>
(will not reduce loan balance)	<u>\$0</u> principal, <u>\$632.07</u> interest
Minimum Interest Payment at 4.5%:	<u>\$506.69,</u>
(will INCREASE loan balance)	<u>\$0</u> principal, <u>\$506.69</u> interest

**AND \$125.38 added to loan balance**

If you choose to pay the minimum payment amount, your loan balance will increase. This increase instead of a decrease in your loan balance is called negative amortization. If the loan balance increases, your monthly mortgage payment may also increase to cover the difference.

If your loan balance rises above **125%**, as indicated in your Note, your lender has the right to recalculate your loan. **If your loan is recalculated, it is likely that your loan payment will go up a lot.**

### **Late Payment**

Your loan payment is due on the **1st** of every month and is considered late after the **15th** of every month. If your lender receives your mortgage payment after the **15th**, your lender will charge a late fee of **5%** of the overdue payment of principal and interest.

### **Loan Balance**

Your loan balance **can rise to a maximum of \$125,000.**

### **Prepayment Penalty**

You **have** a pre-payment penalty.

A prepayment penalty is an amount that you will be required to pay if you pay your loan off early such as through a refinance, or make significant additional payments to principal prior to **June 1, 2010**. Based on your initial loan amount, your prepayment penalty may be as high as **\$3,100.00**.

### **Balloon Payment**

You **do not have** a balloon payment.

### **Closing Costs**

Next we will review all of the HUD-1/1A charges and credits associated with your loan and compare them to the GFE you received when you applied for this loan.

	Good Faith Estimate	HUD-1/1A	\$ Increase
<b>Changes Cannot Increase</b>			
Our service charge (HUD Line #801)	\$2,000.00	\$2,300.00	+ 300
Your credit or charge for the specific interest rate chosen (HUD Line #802)	\$0.00	\$0.00	+ 0
Your Adjusted Origination Charges (HUD Line #803)	\$2,000.00	\$2,300.00	+ 300
Government recording and transfer charges (HUD Line #1201)	\$600.00	\$650.00	+ 50
<b>Charges Cannot Increase More Than 10%</b>			
Appraisal (HUD Line #804)	\$300.00	\$400.00	
Credit Report (HUD Line #805)	\$25.00	\$25.00	
Tax Service (HUD Line #806)	\$75.00	\$75.00	
Title services and lender's title insurance (HUD Line #1101)	\$900.00	\$1200.00	
Optional owner's title insurance (HUD Line #1110)	\$300.00	\$300.00	
_____ (HUD Line #____)			
<b>Total</b>	<b>\$1,600.00</b>	<b>\$2,000.00</b>	<b>+ 400</b>
<b>Percent increase between GFE and HUD-1/1A Charges</b>	<b>25%</b>		
<b>Charges That Can Change</b>			
Reserves or escrow (HUD Line #1001)	\$0.00	\$0.00	
Daily interest charges (HUD Line #901)      \$4.11 per day	\$20.55	\$20.55	
Homeowner's insurance (HUD Line #903)	\$497.45	\$497.45	
Survey (HUD Line #1301)	\$165.00	\$200.00	
Pest Inspection (HUD Line #1302)	\$35.00	\$50.00	
_____ (HUD Line #____)			

## Acknowledgement

The undersigned hereby state that the Closing Script was read and the following information was provided and explained:

1. The comparison between the charges listed on the HUD-1/1A settlement form and the estimate of charges on the GFE;
2. Whether or not the tolerances have been met within the applicable categories between the GFE and the HUD-1/1A; and
3. Any inconsistencies between the loan documents (including the mortgage note) and the summary of the loan terms on the GFE, and between the HUD-1/1A settlement charges and the charges stated on the GFE.

\_\_\_\_\_ (Representative)

Cube Settlements (Company)

\_\_\_\_\_ (Borrower)

\_\_\_\_\_ (Borrower)

01/26/2008 (Date)

# The GFE Today



# Good Faith Estimate (GFE)

Name of Originator	Borrower
Originator Address	Property Address
Originator Phone Number	
Originator email	Date of GFE

## Instructions

This GFE gives you an estimate of your settlement charges and loan terms if you are approved for this loan. See page 3 for more detailed instructions.

## Important dates

- The interest rate for this GFE is available until [ ] [ ] [ ] [ ] . After that date, the interest rate, some of your Loan Origination Charges, and the monthly payment shown below can change until you lock your interest rate.
- This estimate for all other settlement charges is available until [ ] [ ] [ ] [ ] .
- If you proceed with this loan, you must go to settlement in [ ] days. You must lock the interest rate at least [ ] days before settlement.

## Summary of your loan terms

Your Loan Details	
Your initial loan balance is	\$ [ ] [ ] [ ] [ ] [ ] [ ]
Your loan term is	[ ] [ ] [ ] [ ] years
Your initial interest rate is	[ ] [ ] [ ] [ ] %
Your initial monthly amount owed for principal, interest, and any mortgage insurance is	\$ [ ] [ ] [ ] [ ] [ ] [ ] per month
Your rate lock period is <i>After you lock in your interest rate, you must go to settlement within this number of days to guarantee this interest rate.</i>	[ ] [ ] [ ] [ ] days
Can your interest rate rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of [ ] [ ] [ ] %
Can your loan balance rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of \$ [ ] [ ] [ ] [ ] [ ] [ ]
Can your monthly amount owed for principal, interest, and any mortgage insurance rise?	<input type="checkbox"/> No <input type="checkbox"/> Yes, it can rise to a maximum of \$ [ ] [ ] [ ] [ ] [ ] [ ]
Does your loan have a prepayment penalty?	<input type="checkbox"/> No <input type="checkbox"/> Yes, your maximum prepayment penalty is \$ [ ] [ ] [ ] [ ] [ ] [ ]
Does your loan have a balloon payment?	<input type="checkbox"/> No <input type="checkbox"/> Yes, you have a balloon payment of \$ [ ] [ ] [ ] [ ] [ ] [ ] due in [ ] [ ] [ ] [ ] years.
Does your loan include a monthly escrow payment for property taxes and, possibly, other obligations?	<input type="checkbox"/> No <input type="checkbox"/> Yes

## Summary of your settlement charges

<b>A</b>	Your Adjusted Origination Charges (Table A, page 2)	\$ [ ] [ ] [ ] [ ] [ ] [ ]
<b>B</b>	Your Charges for All Other Settlement Services (Table B, page 2)	\$ [ ] [ ] [ ] [ ] [ ] [ ]
<b>A + B</b>	<b>Total Estimated Settlement Charges</b>	\$ [ ] [ ] [ ] [ ] [ ] [ ]

# Understanding your estimated settlement charges

Your Loan Details	
<b>1. Our service charge</b> These charges are for the services we provide when we get and process this loan for you.	
<b>2. Your credit or charge for the specific interest rate chosen (points)</b> <input type="checkbox"/> The credit or charge for the interest rate you have chosen is included in "Our service charge." (See item 1 above.) <input type="checkbox"/> You receive a credit of \$ _____ for this interest rate of ____%. This credit reduces your upfront charges. <input type="checkbox"/> You pay a charge of \$ _____ for this interest rate of ____%. This payment (discount points) increases your upfront charges. (See the table on page 3 to see how you can change this charge or credit by choosing a different interest rate.)	
<b>A</b>	<b>Your Adjusted Origination Charges</b>
	\$ _____

Your Charges for All Other Settlement Services									
<b>3. Required services that we select</b> These charges are for services we require to complete your settlement. We will choose the providers of these services. <table border="1"> <thead> <tr> <th>Service</th> <th>Charge</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>	Service	Charge							
Service	Charge								
<b>4. Title services and lender's title insurance</b> This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.									
<b>5. Required services that you can shop for</b> These charges are for other services that are required to complete your settlement. We can refer you to providers of these services or you can shop for them yourself. Our estimates for providing these services are below. <table border="1"> <thead> <tr> <th>Service</th> <th>Charge</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>	Service	Charge							
Service	Charge								
<b>6. Government recording and transfer charges</b> This includes state and local charges on mortgages and home sales.									
<b>7. Reserves or escrow</b> This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.									
<b>8. Daily interest charges</b> 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 <input type="text"/> <input type="text"/> <input type="text"/> ).									
<b>9. Homeowner's insurance</b> This charge is for the insurance you must buy for the property to protect from a loss, such as fire.									
<b>10. Optional owner's title insurance</b> This charge is for additional insurance you can choose to buy to protect yourself from title defects.									
<b>B</b>	<b>Your Charges for All Other Settlement Services</b>								
	\$ _____								
<b>A + B</b>	<b>Total Estimated Settlement Charges</b>								
	\$ _____								



# Important Information and Instructions

## Shopping for a loan offer

Only you can shop for the best loan for you. Compare this GFE with other loan offers, so you can find the best loan. Use the table on page 4 to compare all the offers you receive.

## Understanding which charges can change at settlement

The GFE estimates your settlement charges. At your settlement, you will receive a HUD-1. Compare the charges on the HUD-1 with the charges on this GFE. Charges can change if you select your own provider and do not use the companies your lender suggests.

The list below shows you how much the estimated charges on this GFE can change at your closing.

These charges <b>cannot increase</b> at settlement:	The total of these charges <b>can increase up to 10%</b> at settlement:	These charges <b>can change</b> at settlement:
<ul style="list-style-type: none"> <li>• Our service charge</li> <li>• Your charge or credit for the specific interest rate chosen (after you lock in your interest rate)</li> <li>• Government recording and transfer charges</li> </ul>	<ul style="list-style-type: none"> <li>• Required services that we select</li> <li>• Title services and lender's title insurance (if we select them or you use providers identified by us)</li> <li>• Required services that you can shop for (if you use providers identified by us)</li> <li>• Optional owner's title insurance (if you use providers identified by us)</li> </ul>	<ul style="list-style-type: none"> <li>• Required services that you can shop for (if you do not use providers identified by us)</li> <li>• Title services and lender's title insurance (if you do not use providers identified by us)</li> <li>• Reserves or escrow</li> <li>• Daily interest rate charges</li> <li>• Homeowner's insurance</li> <li>• Optional owner's title insurance (if you do not use providers identified by us)</li> </ul>

## Looking at trade-offs

In this GFE, we offered you a particular interest rate and estimated settlement charges. But, you could choose other loans to get a lower interest rate or lower settlement charges.

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

The table below shows how the loan for this GFE compares to two other options. If you decide you want to make one of these trade-offs, you must ask us for a new GFE.

	The loan in this GFE	A loan with a lower interest rate	A loan with lower settlement charges
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 charges by \$	Your higher interest rate will lower your settlement charges by \$
How much your total estimated settlement charges will be	\$	\$	\$

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



## Your financial responsibilities as a homeowner

In addition to your monthly amount owed for principal, interest, and mortgage insurance, you may need to pay other required annual charges to keep your property. We must provide an estimate for annual property taxes along with homeowner's, flood, and other required property protection insurance, but we are not required to provide estimates for the other charges. You may have to identify the other charges and ask for additional estimates from others.

Different sources might use different techniques to estimate these charges, but the actual charges will be the same in the end. Therefore, do not use these estimates to compare settlement charges from different loan originators.

Annual property taxes . . . . .	
Annual homeowner's insurance . . . . .	
Annual flood insurance . . . . .	
Annual homeowners association/condominium fees . . . . .	
Other . . . . .	
<b>Total Other Annual Charges . . . . .</b>	

## Applying for this loan

If you decide you would like to apply for this loan, contact us at [redacted]. You must pay a fee of \$ [redacted]. This fee will be subtracted from your settlement charges.

## Getting more information

The type of loan you choose can affect your current and future monthly payments. You can ask us for more information about loan types. You can also look at several government publications: HUD's *Special Information Booklet* on settlement charges, your *Truth-in-Lending Disclosures*, and consumer information publications of the Federal Reserve Board.

## Using the shopping chart

Use this chart to compare Good Faith Estimates (GFEs) from different loan originators. Fill in the information by using a different column for each GFE you receive.

By comparing loan offers, you can shop for the best loan.

	Loan 1	Loan 2	Loan 3	Loan 4
Loan Originator Name				
Initial Loan Balance				
Loan Term				
Initial Interest Rate				
Initial Monthly Amount Owed				
Rate Lock Period				
Can Interest Rate Rise?				
Can Loan Balance Rise?				
Can Monthly Amount Owed Rise?				
Prepayment Penalty?				
Balloon Payment?				
<b>Total Estimated Settlement Charges</b> ▶				

## If your loan is sold in the future

Lenders can receive additional fees by selling your loan at some future date after settlement. Once you have obtained your loan at settlement, however, your loan terms, adjusted origination charges, and total settlement charges cannot change. After settlement, any fees lenders receive in the future cannot change the loan you received or the charges you paid at settlement.

