

Moderator's Guide—Industry

Greet participant and thank him or her for coming. Ask participant to take a seat and if he or she had any trouble finding the site or if he or she has been there before.

Introduction of Moderator and Notetaker (10 minutes)

Welcome, and thank you for coming today. My name is _____ and this is _____. We are from the Kleimann Communication Group, a design and research firm in Washington, DC. Before we get started, I want you to know that I will be reading from a script. We are talking with a number of people this week, and we want to be sure we say the same things in the same way to everyone.

The material we are testing today is part of a consumer study about the closing disclosure you receive when you are closing on a loan to buy or refinance a home. The study is being conducted by the Consumer Financial Protection Bureau, a government agency that is also known as the CFPB.



Note to Moderator: Hand participant piece of paper with the CFPB website address:

<http://www.consumerfinance.gov/knowbeforeyouowe/>

Representatives from the CFPB are observing today. They are very interested in hearing your thoughts. Let me know at the end of the session if you would like to meet them.

The CFPB is working to create a closing disclosure that will help consumers understand their loan terms and costs when they close on a loan to purchase a home or refinance an existing loan. What you say to us today will help us do that.

We know that as a lender/broker or settlement agent, you interact with consumers using these forms and undoubtedly have important suggestions. We also want to get feedback from you about improving the form's usability and to reduce burdens and ease implementation for industry. The CFPB is working to

create a closing disclosure that consumers, lenders/brokers, and settlement agents can all understand and use. What you say to us today will help us do that.

I will be leading today's session and _____ will be taking notes to help us remember what you say. We will be audio- and /or video- taping this session, based on what you agreed to, to ensure that we collect complete information. The entire session will take no more than 90 minutes, and we will take a break about half way through the session. The questions we will be asking have been approved by the Office of Management and Budget and have been assigned OMB Control Number 3170-0003. Any questions so far?

Privacy

I have a few questions to ask you about the paperwork you filled out when you arrived. Can you please answer either yes or no to each of the questions that I will ask you? (If participant nods or shakes head, ask him or her to say the answer out loud for our tape)

- Did you fill out a questionnaire when you arrived today?
- Were you given consent forms to participate in this session and for us to audiotape and videotape your session today?
- Did you read and sign those forms?
- Did you give permission for both audiotape and videotape? (If did not give permission for video, say, "One of my colleagues in back will make sure that the video is off. ")

NOTE TO MODERATOR: Do not proceed with the session unless the participant answers "yes" to each of the first three questions. (Participant must agree to audio but video is optional). Do you have any questions?

All of the information we collect today will be kept private to the extent permitted by law, and we will not identify you by name when we compile our results. In addition, we will not use your full name, address, or any other personal identifying information other than your image in reports, papers, or videos based on this research. I want to remind you that you may end the interview at any time.

About the Session

Over the next 90 minutes, I am going to ask you to do a couple of things and to respond to a series of questions. As I go through these questions, and you give me your responses, please remember there are no right or wrong answers. We aren't testing you—even if at times it may feel like we are. We're testing the disclosure and any information you give us is good information.

We want to learn from you what works best for consumers to help them understand mortgage loan closing disclosures, what eases implementation and the usability of the form for industry, and if these disclosures give you the format you need to disclose the transaction of purchasing a home or refinancing a mortgage loan.

Introduction to Think-Aloud Technique

One of the best ways to learn about a disclosure is by watching someone interact with it for the very first time. Once I give you the disclosure, I'm going to ask you to talk **out loud** about what you are thinking as you read it. You might be reading out loud and thinking, "Wow! This is great!" or "I don't like this!", say those things out loud. Or maybe you think "What does this word mean?" Say it out loud. We want to hear that inner voice in your head that comments on things you read. Talking out loud is the only way we can hear what you are thinking and how you are reacting. This may seem a little odd, but we really want to hear everything that you are thinking as you interact with these disclosures for the first time, so we can improve it further.



Note to Moderator: If needed

To learn from you, it is important that you:

- Tell us out loud where you are in the disclosures.
- Tell us what you are reading, skimming, skipping in the disclosures.
- Tell us any questions, suggestions, or confusion that you might have about any part of the disclosures.

Talking out loud is very important because our notetaker will be recording what you say as you go through the disclosure. What you are thinking is more important than what you are reading.

I know this technique of thinking aloud might seem unusual. So, I'd like to let you practice. I'm going to give you a menu from a restaurant and I'd like you to "think aloud" and tell me how you would go through this menu and decide what you'd want to eat. Again, I want to hear what you are thinking, reading, skimming, skipping, how you react to the menu, and how you go about making a decision. Any questions?



Note to Moderator: Hand participant Menu.

Now, here is the menu. Remember, that you are reading to decide what to order. To get you started, what is the first thing you see or notice?



Note to Moderator:

- Give the participant the menu and get him or her comfortable with talking about what he or she is looking at or reading, and with voicing questions, confusion, and decisions.
- Coach the participant to use the technique. Be sure that he or she has looked at and commented on the following:
 1. the appearance—color, font, layout
 2. symbols and graphic elements, such as pictures or symbols
 3. details, such as why some items have descriptions and others don't
 4. order in which he or she reads the information
- Ask the participant what he or she is reading, where he or she is looking, and when a decision can be made. The task should take no more than 5 minutes.
- **Important:** This task sets the stage for how well the participant will "talk aloud" in Task One.

Great! You understand exactly what we are looking for. Do you have any questions before we get started?

Task One: Part 1 Loan Term Summary Think Aloud (15 minutes)

Okay, in a moment I am going to hand you page 1 (called Part 1) of the mortgage loan closing disclosure. We will be looking at the disclosure in parts but you will see all parts.



Note to Moderator: Hand participant *Scenario Card* and read out loud.

Your client is going to closing tomorrow to finalize the purchase of house that costs \$135,000. She made a down payment of a little over 10% or \$14,000, of which she paid \$4,000 to the seller as a deposit. She planned to borrow \$121,000.

ARM Scenario:

She applied for a 30 year adjustable rate loan (an ARM), with a 5 year initial fixed rate, meaning it will adjust after 5 years, and planned to borrow \$121,000.

She received an estimate of the cash needed to close for \$16,450 when she applied for the loan.

Cost of home: \$135,000

Down payment: \$14,000 (about 10% down) but already gave \$4000 deposit to seller

Amount borrowed: \$121,000

Estimated Cash to Close (at application): \$16,450

In reviewing the mortgage loan closing disclosure, I'd like you to imagine that *you are reviewing this closing disclosure in preparation to explain it to your client who has not purchased a home before. Your task is to look at this closing disclosure to decide if it provides the right information to allow your client to understand the loan and the costs associated with it.*

When I hand you the disclosure, I want to hear what you are noticing and thinking about as you look through it as well as your thoughts, questions, and ideas about the closing mortgage disclosure. Tell me what you like about what you see and what you think would be confusing to consumers so we can improve the disclosure. Remember we want to hear your thoughts—both positive and negative--so we

can improve implementation of the form and make sure consumers have clear information about the final loan terms and costs.

Please go through the disclosure the way you would if you were reviewing it to present to a consumer and trying to anticipate where you may have to explain things. As you go through it, please speak aloud so I can hear what you are thinking just as we did with the menu. Remember this is a test of the disclosure, not a test of you. Do you have any questions before we get started?

Okay, here is the disclosure.



Note to Moderator: Hand participant closing mortgage loan disclosure.

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



Note to Moderator:

- **Allow participant time to review the disclosure and comment on it.**
- **Ask participant to put disclosure on table.**
- **State aloud whenever the participant moves to another section or page.**
- **Ask participant what he or she is looking at.**
- **If participant looks confused, ask “is there something that is confusing there?”**
- **Remind the participant to tell you what he or she is thinking, what he or she likes and dislikes, and what he or she understands and doesn't understand.**

When the participant seems to be finished, ask the participant:

1. You have received and reviewed this disclosure. What questions do you think your client might have for you (the lender or settlement agent)?
2. Are there any areas that you think might be confusing for consumers?
3. What do you think is the purpose of Part 1 of this disclosure?

4. In your own words, can you imagine that I am your client? Can you talk me through this page?
5. Do you think that consumers will have any difficulty knowing how much their estimated total monthly payment to the mortgage company will be in Year 1?
6. Do you think that consumers will be able to understand whether escrow is included in their payments?
7. Do you think that consumers will understand the payment changes over time and what they include?
8. Do you have any additional suggestions for Part 1?

Task Two: Part 2 Transaction Summary Think Aloud (30 minutes)

This task involves showing the participant Parts 1 & 2 with the focus on Part 2 which lists the summary of the transaction (page 2), the closing costs (page 3) and a tolerance comparison and AIR Table for ARM (page 4).

Thank you for working with that part of the disclosure. Now, I'm going to show you part 2 of the disclosure which has some additional information about the loan.

When I hand you the disclosure, I want to hear what you are noticing and thinking about as you look through it as well as your thoughts, questions, and ideas about the disclosure. Again, tell me what is clear about what you see and what is confusing so we can improve the disclosure. Please speak aloud so I can hear what you are thinking just as we did with the menu and the previous part. Any questions?

Okay, here is Part 2, you may look back at Part 1 as much as you like.

Give the participant time to read and then ask:

1. What additional questions might your consumer have after seeing Part 2?
 2. Are there any areas you think your borrower might have trouble understanding? Suggestions?
 3. What is the purpose of Part 2 of the disclosure?
 4. How much cash is due to the seller? Where do you find this information?
 5. What is the appraisal fee that the borrower paid? When did she pay this amount? Where did you find this information?
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1. In Design 1 (on page 3) and Design 2 (on page 4), you may have noticed with new treatment of items that are “paid outside of closing.” What do you think about this? What thoughts do you have about implementing this column? What thoughts do you have about consumers understanding items “paid outside of closing” on the current HUD-1 versus this form?
 2. In Design 1 (on page 3) Design 2 (on page 4), why do you think that they use the column “When”? What do you think of the answers given? Why are there no dates given?
 3. How important is it to consumers to see when fees are paid (either at or before closing)? Does this form effectively communicate this information? Why, why not?
 4. Is there any other way you believe would more effectively communicate items paid outside of closing?
 5. Where is her deposit represented? Where do you find that information?
 6. What is the seller paying for or the total amount the seller is paying? Where do you find this information?
 7. Let’s look at page 4 in the Limits on Increases. In the section on “Combined Charges Cannot Increase by more than 10%”, do the loan estimates and finals show any changes? Which fees (by line item) have changed?
 8. Is the change too much? How can you tell? What would you suggest your client do if the fees changed beyond the applicable limit? What do you think the form should communicate about what a consumer should do?

6. Here is a highlighter, can you highlight the 5 most important areas in Part 2 for a consumer? Why did you select those pieces of information?
9. Is there any information in this section that you think is missing that you think consumers would need?
10. We are aware that one of the issues with the current settlement statement (not the form we are looking at today) is that it requires that certain charges be “rolled up” and it does not allow for the level of itemization needed to satisfy state law or other requirements. For example, this has been a concern with respect to title charges. Do you think this form would address such concerns? Is there any area where itemization should not be permitted? How does the level of itemization on this form affect your ability to implement it?
11. Would you require or need to use an addendum or separate statement as a disbursement record if you used this form?
12. Do you see any challenges to using this section for industry?
13. What suggestions do you have to ease implementation?

Now I have a slightly different format to show you of Part 2. The numbers are all the same, only the format is different. Let me give you a few minutes to look it over and point out any key differences you notice to me. Page 2 is exactly the same, and you may look back at the first format as well.

7. What do you think about the alternate overall format?
8. Which overall format do you prefer? Why?
9. When you look at page 3, you see that the way the columns are laid out are slightly different and Design 2 breaks out additional details on page 4 in a table called “Paid Outside of Closing,” which format do you prefer? Why?
10. If you could get rid of some of the details that are included on all of these pages in Part 2, which ones would be willing to omit? Which details seem less important to you than others? You can go ahead and cross out any that you think aren’t needed. Why?



We're more than half way finished. Let's go ahead and take a short break for you and so I can set up for the next part. You can go get a drink, or use the restroom and I will come get you from the waiting room in just a few minutes.

Break (5 minutes)

Task Three: Part 3 Federal Disclosures Think Aloud (30 minutes)

This task involves showing the participant Parts 1, 2, & 3. We focus on Part 3-which includes mandated Truth-in-Lending disclosures and additional disclosures required by the Dodd-Frank Act. Design 1 has a Page 5 and Design 2 (2 column) has a page 5 and 6.

Now I would like to show you Part 3 of the disclosure. Again, you may look back at Parts 1 and 2 as much as you like. Let's go through it the same way we have been going through each of the other tasks where you think aloud and tell me what you like about what you see, what you don't like, what's clear, what's not clear. Then, I will ask you a few questions.



Note to Moderator: Remind participant about the Scenario Card and read out loud.

When participant seems finished ask:

1. What questions do you think consumers would have about this section?
2. What areas do you think consumers might have trouble understanding?
3. What is the purpose of Part 3 of the disclosure?
 1. Looking at the "Loan Disclosures" section, you will see that a number of items are in that section, including "Assumption," through "Security Interest," please highlight the sections that you think would be MOST important for consumers to know. Why are they important?
 2. Please highlight the items in the "Loan Calculations" section that would be MOST important for consumers to know. Why are they important?
 3. What do you think about the total interest percentage (TIP)? Would a consumer understand this information? How could a consumer use this information?
 4. What do you think about the Lender Cost of Funds (LCF)? Would a consumer understand this information? How could a consumer use this information?
 5. What would be the implementation issues with requiring a disclosure such as the LCF?

6. What do you think about the Closing Costs Summary? Would a consumer understand this information? How could a consumer use this information? What are the implementation issues with respect to this disclosure?
7. What do you think about the Originator Fees Summary? Would a consumer understand this information? How could a consumer use this information? What are the implementation issues with respect to this disclosure?
4. In the "Other Disclosures" information, please highlight the items in that section that are MOST important for consumers to know. Why are they important?
5. What do you think about the Liability after Foreclosure section? Would a consumer have difficulty understanding this information? How could a consumer use this information?
6. What do you think about the Appraisal copy section? How would a consumer be able to use this information? Is this important for a consumer to know?
7. What do you think about the Confirm Receipt section?
8. What does it mean if the consumer signs this form?
9. Is there any information on these pages that you think could be deleted?
8. Is there any information missing that you think is critical for consumers to know?
9. Do you see any difficulties with implementation of this section for industry?
10. Do you have any suggestions for changes or improvements?

Now I have a slightly different format to show you of Part 3. The information is essentially the same, but the format is different. Let me give you a few minutes to look it over and point out any key differences you notice to me. You may look back at the first format as well.

After reviewing both formats, you probably noticed that Design 1 uses a three column, 1 page format and Design 2 uses a two column, 2 page format (Design 2).

1. Which format looks easier to read? Why?

2. Specifically, let's look at the Loan Calculations section. Design 1 has the information in a prose format, Design 2 has it in a table format. Which design presentation makes it easier for the consumers to understand what this section is telling her? Why?
3. Design 1 uses embedded check boxes to tell the consumer about the information that is relevant to her loan, while Design 2 uses stacked check boxes. Which design presentation makes it easier for the consumer to see the information relevant to her loan? Why?
4. When you look at these two designs overall, does one make the relationship of the information clearer to you? Which one? Why?
5. Overall, do you prefer the one page, three column (D1) or two page, two column (D2) version? Why?
6. Now, let me put all of the parts of Design 1 in front of you, so you can see what the entire closing disclosure will look like. On a scale of 1 to 5, with 1 being the worst design you've ever seen, and 5 being the best design you've ever seen, how would you rate the Design 1? Can you explain why you gave it this rating?
7. What would we have to change on this disclosure to make you rate it higher?
8. Now, let me put all of the parts of Design 2 in front of you, so you can see what the entire closing disclosure will look like. On a scale of 1 to 5, with 1 being the worst design you've ever seen, and 5 being the best design you've ever seen, how would you rate the Design 2? Can you explain why you gave it this rating?
9. What would we have to change on this disclosure to make you rate it higher?
10. Now you can choose which designs you like for both Parts 2 and 3 and make your own disclosure. You may also suggest changes to the ordering. Part 1 only has one design. Please choose which design you prefer for Part 2 and then Part 3. So, your ideally designed disclosure would have... (Moderator to state Design 1 or Design 2 for Part 2 and 3).

Closing Remarks (1 minute)

Thanks so much for sharing your thoughts and impressions with us today. Your feedback and suggestions have been very helpful. Do you have any questions I can try and answer? Are you interested in meeting any of the observers?

Thanks again for coming in today, you can head back to the front desk to collect your payment.