

CFPB Integrated Mortgage Disclosure Testing (Round 1)

(OMB Control Number: 3170-0003)

November 4, 2011

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) requires the Bureau of Consumer Financial Protection (“CFPB”) to propose model mortgage disclosure forms that combine certain disclosures required under the Truth in Lending Act (“TILA”) and the Real Estate Settlement Procedures Act (“RESPA”) by July 21, 2012. As discussed in the generic Supporting Statement for this information collection (approved on November 4, 2011), the CFPB has requested a three-year generic clearance to continue the collection of information for the development, evaluation, and implementation of these forms and related materials.

The CFPB began testing in May 2011 under an Emergency Clearance. The CFPB has conducted five rounds of qualitative testing that focused on developing an integrated initial disclosure that consumers will receive three days after applying for a mortgage loan (“the Initial Disclosure”). Under the Generic Clearance, the CFPB will continue this qualitative testing, but will focus on adapting the Initial Disclosure design to provide the disclosures that consumers will receive at or before consummation of a mortgage loan transaction (“the Closing Disclosure”).

The comment period for the proposed information collection closed on October 26, 2011,¹ and the CFPB has submitted a revised Supporting Statement addressing the only comment received. The first round of testing for the Closing Disclosure will begin on November 8, 2011. The procedures and materials for the first round of testing are similar to those approved by OMB for testing of the Initial Disclosure and the testing materials include the examples provided under the Supplemental Documents to this generic Information Collection Request.

Planned Testing Under the Generic Clearance

The Initial and Closing Disclosures are designed to enable consumers to understand the basic terms and costs of a mortgage loan. The Initial Disclosure provides consumers with the preliminary loan terms, estimated closing costs, and other statutory disclosures. The prototypes for the Closing Disclosure build on the design of the Initial Disclosure to provide consumers with the final loan terms and closing costs, a full itemization of the loan transaction, and additional statutory disclosures. The Closing Disclosure also incorporates elements of the existing HUD-1 closing document tested by the Department of Housing and Urban Development (“HUD”) in 2008 and the TILA disclosures tested by the Federal Reserve Board in 2009.

¹ See 76 Fed. Reg. 59379 (Sept. 26, 2011).

The Closing Disclosure. The Closing Disclosure prototypes, at this time, consist of three basic parts:

Part 1 (page 1). This part generally mirrors page 1 of the Initial Disclosure except that it lists the parties to the transaction at the top of the page. This part allows consumers to compare the summary of the loan terms and estimated costs in the Initial Disclosure to the final terms and costs.

Part 2 (pages 2, 3, and 4). This part is based on the current HUD-1 content and design and has three subsections:

- Page 2 provides a summary of the borrower's and seller's transactions.
- Page 3 provides a breakdown of the settlement charges. The organization of charges is similar to that on page 2 of the Initial Disclosure to facilitate comparison.
- Page 4 provides a chart of the fees subject to regulatory limitations on increases.

Part 3 (pages 5 and 6). This part provides additional disclosures required by TILA and RESPA. Many of these items were tested in the Initial Disclosure and in the Federal Reserve Board's 2009 testing. The attached prototypes contain two different designs for the presentation of this information.

Testing. The Closing Disclosure is intended to:

- Enable borrowers to understand the terms of their loans, their closing costs, and the distribution of funds at closing;
- Enable borrowers to compare the preliminary terms and costs in the Initial Disclosure to the final terms and costs in the Closing Disclosure; and
- Facilitate compliance with the applicable statutes.

As illustrated in the moderator's guides, the structure of the Closing Disclosure testing will be similar to the Initial Disclosure testing. As with the Initial Disclosure, we will test the Closing Disclosure with borrowers and individuals who work in the mortgage loan industry. Our testing will use the same techniques and types of questions approved by OMB for testing of the Initial Disclosure. For example, we will again use the think-aloud technique as the initial way for consumers to interact with the disclosure. Following the think aloud, we will ask a series of specific questions to test comprehension and to assess performance of different designs. We will continue to use a mix of stated or implied comprehension questions, scale questions, and questions that ask participants to explain their decisions. We will again rotate the design the participants see first to compensate for any bias of order.