

Design and Testing of Mortgage Servicing Disclosures: Protocol for In-Depth Cognitive Interviews

Round 3: Los Angeles, CA (April 3-4, 2012)

Introduction (2 minutes)

My name is _____ and I work for a company called ICF International. We are a research company that conducts interviews and focus groups on behalf of different organizations across the country. For this specific project, we are working on behalf of the Consumer Financial Protection Bureau. The Consumer Financial Protection Bureau is a new agency of the Federal government whose role is to make markets for consumer financial products and services work for Americans — whether they are applying for a mortgage, choosing among credit cards, or using any number of other consumer financial products. Today, we are going to be talking about several topics related to mortgages, and I'm going to ask you to review a few documents. I want to be clear up front that I am not an expert in this topic—you can ask me questions, but I may not be able to answer them. This interview will take no more than 60 minutes, and you may take a break and step out or end the interview at any time.

Before we begin, have you had an opportunity to read and sign the informed consent? Do you have any questions about it?

I'd like to remind you of a few things that were on that document.

- We will be videotaping this discussion, to make sure we don't miss anything that you say.
- Behind the glass, there are people observing this interview from both the Consumer Financial Protection Bureau and my company, ICF International.
- Everything that you say in this discussion will be private. Your name will never be used in any of our reports.

Do you have any questions before we begin?

Section I: Background Information (5 minutes)

Let's begin by talking for a few minutes about your experience with mortgages.

1. Do you have a mortgage?
 - a. [If Yes] How long have you had it?
 - b. How close are you to paying it off?

2. Tell me a little about the terms of your mortgage.
 - a. Is your interest rate fixed, or can it change?
3. Do you get statements about your mortgage payment? Do you get them by mail or do you get them delivered electronically?
 - a. What do you do with those statements when you get them?
 - b. How closely do you read those statements? If you don't read them, did you used to read them when you first got the mortgage?
 - c. What information do you look at on the statement?

Section II: Periodic Statements (25 minutes)

At this point I would like you to imagine that you have a mortgage with a company called "Springside Mortgage." I'd like you to imagine that you just received your mortgage statement for this month in the mail. I would like you to review this document just like you do your actual statement. As you are reading, I want you to "think aloud." By that, I mean that I would like you to describe what you are thinking as you read. In particular, let me know if you read anything that you find surprising, interesting, or confusing.

A: "Delinquent" Statement (15 minutes)

Before you start reviewing this periodic statement, I want to let you know that for the last few months you have been short on money, so you have not been making your full mortgage payments.

Give participant the periodic statement. Give him or her a few minutes to read while thinking aloud. When he or she is finished, continue.

4. If this were your statement, is there any information that would catch your attention or be particularly important to you?
5. Is there anything you found confusing or unclear about this monthly statement?
 - a. Are there any questions you would have if this were your statement?

Now I'd like to ask you some specific questions about the information presented in this document. But before I do, I want to make sure you understand that I'm not testing you or your knowledge. The reason I'm asking the questions is because I want to see how easy the statement is to read and understand. So you are free to look at the statement when you're answering the questions.

Based on the information in this monthly statement:

6. When is your next payment due?

7. How much is Springside Mortgage asking you to pay this month?
 - a. Why are they asking you to pay that amount?
 - b. This statement says that you are being charged \$235.18 for “escrow.” *Point out in the Explanation of Amount Due section.* What does “escrow” mean?
8. Are you behind on your mortgage payments?
 - a. If so, how do you know?
 - b. How long overdue does the bank consider you to be?
 - c. How much money are you behind on your payments? How do you know?
 - i. How did Springside Mortgage calculate how much money you are behind?
9. If you wanted to bring your account entirely up to date, how much would you have to pay this month?
 - a. What could eventually happen if you don’t bring your account up to date?
 - i. *(If necessary)* Would Springside Mortgage have the right to take your house?
10. Did the bank receive the payment you made last month? How do you know?
 - a. How much did you pay last month?
 - b. What did Springside Mortgage do with the money that you paid last month?
 - i. Did they use it to pay down the amount of your loan?
 - ii. *[If participant is unsure]* What do you think they did with the money, based on what you see here?
 - c. *If necessary, point out the fact that last month’s payment is listed in a row labeled “Partial Payment (Unapplied)”.* What do you think this means?
11. *If necessary, tell participant that the fact that this amount is “unapplied” means that Springside Mortgage has not yet applied the money to their mortgage, but instead is holding the money in a separate account.* What would you have to do in order to get Springside Mortgage to apply those funds to your loan?
12. Imagine that you were having trouble paying your mortgage. What would you do?
 - a. Other than Springside Mortgage, is there anyone that you could contact to get advice?
 - b. *[If participant mentions mortgage counselors, or refers to the text in the Important Messages box without turning to the back]* Does the form provide any information about how you could contact these organizations?

The Consumer Financial Protection Bureau is responsible for making rules that tell mortgage companies what information they have to put on monthly statements.

13. If you were behind on your mortgage, is there any additional information that you would want to know that is not shown on this monthly statement? If so, what?

B: “Pick-a-Pay” Statement (10 minutes)

[*Take away periodic statement A.*] Now I’m going to show you another periodic statement for a different loan. In this case, the statement is for a “pick-a-pay” loan. Have you ever heard of a “pick-a-pay” or “payment option” mortgage?

14. [*If yes*] What do you know about it? Have you ever known someone who had one of these loans?

A “pick-a-pay” mortgage is a loan where instead of having a set monthly payment, each month you have several options for what payment you want to make. In the case of this statement that I am going to show you, you will see that there are three different payment amounts that you could make each month. *Make sure that participant understands this basic description of a “pick-a-pay” loan, but do not provide any other information about how those three payments might differ (other than that they are different amounts).*

As we did before, I’d like you to review this statement just as you would if you had received it in the mail, and to “think aloud” as you go through it. *Give participant statement B.*

15. If this were your statement, is there any information that would catch your attention or be particularly important to you?
16. Is there anything you found confusing or unclear about this monthly statement?
 - a. Are there any questions you would have if this were your statement?

Again, I’m going to ask you a few questions to see how clearly the statement is providing information to you. Based on the information in this monthly statement:

17. When is your payment due this month?
18. Overall, how much money do you still have to pay off on this mortgage? *Give participant enough time to find the answer; if they cannot point this information out to them on the statement.*
19. What are the different payments that you could make this month?
 - a. Other than the amount, what are the differences between these payments?

20. *[If necessary]* Obviously, these payments are different amounts, and everyone wants lower mortgage payments. Is there any disadvantage to making the lowest payment—in this case, \$1,156.43? If so, what?
21. We had said before that the total amount of money you owe to the bank is currently \$260,000. *Point out again on the statement.* If you made Payment Option 3 this month, what would be the total amount of money you would owe the bank when you got this statement next month? Would it be more than \$260,000, less than \$260,000, or exactly \$260,000?
- Why do you say that?
 - Could you make Payment Option 3 every month for the entire period of your loan?
 - If not, why not? What would happen if you kept making Payment Option 3?
22. What about if you made Payment Option 2? If you made that payment, how much money would you owe to the bank next month? Would it be more than \$260,000, less than \$260,000, or exactly \$260,000?
- Why do you say that?
 - Could you make Payment Option 2 every month for the entire period of your loan?
 - If not, why not? What would happen if you kept making Payment Option 2?
23. And what if you made Payment Option 1? If you made that payment, how much money would you owe to the bank next month? Would it be more than \$260,000, less than \$260,000, or exactly \$260,000?
- [If participant understands that their loan balance would go down if they made Payment Option 1]* From this statement, can you tell how much less you would owe if you made Payment Option 1?
24. *If participant does not understand that Payment Option 3 will make their loan balance increase, ask them to read the text underneath the third payment option amount.* Please explain what this means in your own words.
- What does it mean that if you make this payment you will be “borrowing more money”?

Section III: ARM Reset Notice (10 minutes)

[Take away periodic statement B.] Now I'm going to ask you to look at some different kinds of documents—no more monthly statements.

I'd like you to assume that you had a different mortgage loan through Springside Mortgage. Imagine that you have had that mortgage for about two and a half years. Imagine also that the interest rate on your mortgage has so far been fixed at 4.25%, and has never changed. One day, you receive an envelope from Springside Mortgage with a document in it. As we did before, I'd like you to review this document just as you would if you had received it in the mail, and to "think aloud" as you go through it.

Give participant the ARM rate reset notice. Give him or her a few minutes to read while thinking aloud. When he or she is finished, continue.

25. In a couple of sentences, explain what this document is telling you.
 - a. What is going to happen?
 - b. When is it going to happen?

26. Is there anything you found confusing or unclear about the document?

Again, I'd like to now ask you some specific questions about the information in this document.

27. According to this notice, when are your rate and payment scheduled to change?

If participant does not know that their rate and payment could change in six months, point this out to them at this point.

28. As we have discussed, this notice says that your monthly payment is going to increase. Other than the fact that it is increasing, is there anything else important that is going to change about your monthly payment? *Continue asking until participant comments that payment now includes principal, or until they indicate that nothing else is going to change.*

- a. *If participant sees that new monthly payment includes principal and current payment does not, prompt him or her to identify where on the notice he/she sees that information.*
- b. [If necessary] I'd like you to look at the Principal and Interest rows in the table (*point out*). What do you think these rows are telling you about both your current and your new payments?
 - i. [If necessary] What does the word "none" mean in the middle column?

- c. *Point to last sentence in New Interest Rate and Monthly Payment section. Please read this sentence, and explain to me what it means in your own words.*
29. After your interest rate changes on 9/29, could it ever change again?
- a. If so, how often? How do you know?
- b. *If participants do not know that their rate could change again next year, point that fact out to them. What will determine what your interest rate is **next** September 29, when it changes again?*
- c. If nothing changed about your loan terms and the LIBOR index did not change, what would you expect your interest rate to be when it changes again next year? Why?
- i. *[If participant indicates that they don't know] What do you think would happen to your interest rate next year when it changes again?*
- ii. *[If necessary] Please read the Rate Limits section again. What do you think the third sentence means, in your own words?*
- iii. What do you think the fourth sentence means, in your own words?
- iv. *If participant did not answer Q30b correctly, ask that question again after they have re-read the Rate Limits section.*

Section IV: Force-Placed Insurance (FPI) Notice (8 minutes)

[Take away previous documents.] Now I'd like you to imagine that you again had a loan with Springside Mortgage, and again one day you received an envelope that said "Springside Mortgage" on it, and inside it was a document. As we did before, I'd like you to read this document as you would if you had received it in the mail, and to "think aloud" as you go through it.

Hand participant the FPI notice. Give him or her a few minutes to read while thinking aloud. When he or she is finished, continue.

30. In a few sentences, explain what this document is telling you.
31. What would be your reaction to this document if you received it? Why?
32. Is there anything you found confusing or unclear about the document?
33. Based on what this letter says, do you think this is the first time that Springside Mortgage is letting you know that your insurance had expired?
- a. If not, why do you think that?

34. What would you do if you received this document in the mail?
- Why would you do that?
 - [If participant indicates that they would purchase their own insurance]* This letter seems to be saying that Springside Mortgage may purchase insurance on your behalf. If they are going to purchase insurance for you, why would you want to get your own?
35. *[If participant says that after reading this letter they would purchase their own insurance.]* You indicated that after reading this letter you would get your own insurance. Do you think it would make any difference how quickly you did so? Why?
36. Imagine that after you got this letter you called your insurance company, and it turned out that your policy had expired. You then renewed your policy, but not before there was a one-month period during which you didn't have your own insurance. You then sent proof of insurance to Springside Mortgage. If Springside Mortgage had taken out insurance for you during that one month that you didn't have your own insurance, could they charge you for that month? How do you know?
- Now imagine that you got this letter, and you immediately called your insurance company and renewed your insurance. However, you didn't send any proof that you had insurance to Springside Mortgage right away. Instead you waited three months, during which time Springside Mortgage was charging you for the insurance they had taken out on your behalf. When you eventually did send proof three months later, do you think you could get a refund from Springside Mortgage since you had had your own insurance during that time? How do you know?

False Close and Conclusion (10 minutes)

Interviewer will excuse herself and tell the participant that he or she is going to speak with the observers to see whether they have any follow-up questions. If observers have follow-up questions or topics to revisit, the remainder of the interview should be spent addressing those questions or topics. At the conclusion of the interview, thank the participant for their assistance and lead them to the front desk.