

**CONSUMER FINANCIAL PROTECTION BUREAU
INFORMATION COLLECTION REQUEST –
SUPPORTING STATEMENT
QUANTITATIVE TESTING OF INTEGRATED
MORTGAGE LOAN DISCLOSURE FORMS
(OMB CONTROL NUMBER: 3170-XXXX)**

**B. COLLECTIONS OF INFORMATION EMPLOYING STATISTICAL
METHODS**

1. Respondent Universe and Selection Methods

As set out in Part A of this Supporting Statement, the data collected under this quantitative research will be used to evaluate the results of qualitative testing conducted by the Bureau using statistical data and assess the performance of the Bureau’s proposed integrated disclosures in comparison to the current Federal mortgage loan disclosures. This research will inform the Bureau’s evaluation of the proposed integrated disclosures and finalization of the 2012 Proposal.¹

The study will involve a sample of 850 consumer respondents. With this sample size, there is sufficient power (>.7) to detect medium-sized effects (15%-25%) across each of the cells (assuming cell sizes of 50 consumer respondents) with 95% level of confidence. The power increases substantially (>.9) if cells are collapsed so as to increase cell sizes to 100. The study will not regard the sample as a probability sample of the population designed to be generally representative of the national population.

The main analysis will focus on comparisons in quality/cogency and accuracy of responses (open-ended as well as closed-ended) for respondents exposed to the current disclosures versus the proposed disclosures. Responses to individual questions as well as aggregated responses (*e.g.*, total number of correct responses) will be analyzed. Two-tailed t-tests will be used to test for differences at the 95% confidence level. Additional analysis will drill down to compare differences in responses to the current versus proposed disclosures at different levels of one or more of the other factors (*e.g.*, experience level, type of mortgage, and/or task difficulty). Overall, our analyses will be similar to those conducted by FTC economists Lacko and Pappalardo in their 2007 study on mortgage disclosures.²

¹ See the Bureau’s press release *Consumer Financial Protection Bureau proposes “Know Before You Owe” mortgage forms* (July 9, 2012), available at <http://www.consumerfinance.gov/pressreleases/consumer-financial-protection-bureau-proposes-know-before-you-owe-mortgage-forms/>; the Bureau’s blog post *Know Before You Owe: Introducing our proposed mortgage disclosure forms* (July 9, 2012), available at <http://www.consumerfinance.gov/blog/know-before-you-owe-introducing-our-proposed-mortgage-disclosure-forms/>. The 2012 Proposal was published in the *Federal Register* on August 23, 2012. See 77 FR 51116 (Aug. 23, 2012).

² See *Improving Consumer Mortgage Disclosures: An Empirical Assessment of Current and Prototype Disclosure Forms*, Federal Trade Commission Bureau of Economics Staff Report, by J. M. Lacko & J. K.

The quantitative study will exclude consumers who work in the mortgage loan or title insurance industries, as well as persons who participated in the earlier qualitative research. To ensure that the respondents are part of the targeted audience, the study will ask potential respondents a scale of questions of whether, and when they intend to finance the purchase of a home or refinance a mortgage loan in the future. The study will exclude those who answer “never” because they would not be part of the intended target audience. To refine their level of interest in obtaining or refinancing a mortgage loan in the future, the study will ask them whether they intend to engage in such a transaction in the next 2 years, 5 years, 10 years, 15 years or more, or never.

The contractor, Kleimann Communication Group, Inc. (the Contractor or Kleimann), will use Knowledge Networks, now owned by GfK Research, as a quantitative data collection partner. Study respondents will be recruited through GfK’s established KnowledgePanel, as described in Part A to this Supporting Statement. Members of GfK’s KnowledgePanel will be invited to participate via telephone calls that will follow the Recruiting Script (attached as Appendix A). The Recruiting Scripts asks certain supplemental demographic and residential mortgage market experience questions (as described in Part of the Supporting Statement) to ensure the potential respondent qualifies for the study and identify the variable group in which the respondent will be placed. The Recruiting Script will invite the qualified panel members to a testing facility. The Recruiting Script provides for a follow up letter and telephone call designed to remind the potential respondent of the study date and time.

Demographics to be considered include geographic location, metro/micropolitan city size, age, ethnic and racial diversity, education, income, gender, and marital status. For example, as noted above, the testing facilities will be located in cities that cover the four census regions and the census sub-regions. In addition, the facilities will be located to ensure respondents are recruited from urban, suburban, and rural populations. The reason for this is that real estate markets often have local characteristics, such as different terminology or types of transactions. The study aims to evaluate the proposed integrated disclosures in a variety of markets.

The Contractor typically looks for a mix of respondents and characteristics and does not expect to meet all of the criteria in any one site. Patterns will be tracked across sites and collections with later sites will recruit for characteristics that have not previously been filled. Sites will be selected that provide diversity among small, medium, and large sized cities, as well as geographic diversity.

The testing sessions will be collected in small group sessions (groups of 12 or less) in in-person testing facilities that are located in cities that cover the four census regions and the census sub-regions. The testing sessions will be administered in person by the Contractor using a trained researcher. To ensure that these locations are reasonably accessible to

Pappalardo (June 2007), available at:
<http://www.ftc.gov/os/2007/06/P025505MortgageDisclosureReport.pdf>.

respondents, we will recruit respondents who live within a 60-minute driving distance of one of the locations.

However, since the study respondents do not represent a probability sample drawn from the universe of interest (national population), specific results (*e.g.*, x% people understand concept y from the forms) are not statistically generalizable to the universe. Therefore, the results will not be used to make statements about the universe or to generalize the data beyond the scope of the sample.

2. Information Collection Procedures

Data collection methods and procedures will include a Recruiting Script (attached as Appendix A), a Respondent Questionnaire (attached as Appendix B), a Structured Questionnaire (attached as Appendix C), and a Privacy Act Statement and Consent Form (attached as Appendix D).

The data collected using the Structured Questionnaire will be used to evaluate the disclosure forms being tested. The Structured Questionnaire used at the testing sessions will be administered by a trained researcher who will act as a proctor. The trained researcher will use a standard set of Proctor Instructions, which is attached as Appendix F. The Proctor Instructions contain instructions for the trained researcher as well as instructions for the respondents that the trained researcher will read verbally, to instruct the respondents on the procedures of the testing session.

The testing materials that will be used during the testing session are eight sets of application disclosures and eight sets of corresponding closing disclosures for both the current disclosures and the integrated disclosures, for a total of sixteen sets of disclosures for the current disclosures and sixteen sets of disclosures for the integrated disclosures. The CFPB will use a structured questionnaire methodology for this collection that will allow only questions that can be answered using the sets of disclosures.

Study Design

The design is a 2 by 2 by 2 by 2 between-subjects experimental design. The study factors or independent variables include the following:

Form type (2 levels). The study includes a baseline test using the current mortgage loan disclosures, to compare performance with the proposed integrated disclosures. Therefore, respondents will be randomly assigned to either the current disclosures or the proposed integrated disclosures. In this between-subjects design, respondents will only use either the current or proposed integrated disclosures, not both.

Loan type (2 levels). The mortgage market offers fixed-rate and adjustable-rate mortgage loans. To capture this reality, respondents will be randomly assigned to

one of two conditions -- compare two fixed-rate loans or compare two adjustable-rate loans.

Difficulty type (2 levels). The mortgage market offers mortgage loans with different levels of complexity. For example, some loans may contain fixed interest rates and payment and few other risk factors. In addition, consumers may only face choices of loans among these less complex products. However, the market also may present consumers with more complexity and risk factors. Such loans could have a fixed interest rate, but contain an interest only period that will cause the monthly payment to increase during the loan term. Or the loan may not pay off all of the interest due each month causing the loan balance to increase. In addition, in between the application and closing stages, consumers may be forced to understand more complex changes in the loans, such as a change in the product type or a significant increase in closing costs that may violate legal limits on increases. To capture this reality, respondents will be randomly assigned to one of two conditions -- compare two loans that are relatively easy or compare two loans that are relatively complex and contain more risk factors. The respondent will remain in this condition throughout the test (*i.e.*, for both the application and final disclosures). This approach ensures that data covers situations involving both easy and more challenging loans and comparisons.

Consumer type (2 levels). As described above, we will include two groups of consumers: (1) consumers who have no experience and (2) consumers with experience in home purchase mortgage loans. We will exclude consumers who work in the mortgage, real estate, and title insurance industries, who have previously commented on the proposed forms, participated in the earlier qualitative research project, or who respond they never intend to purchase a home and /or finance with a mortgage.

The design, using an 850-respondent sample size as described above, may be depicted as follows:

		PROPOSED INTEGRATED DISCLOSURES		CURRENT DISCLOSURES	
		Fixed Rate	Adjustable Rate	Fixed Rate	Adjustable Rate
No Experience	<i>Easier</i>	53	53	53	53
	<i>More Challenging</i>	53	54	53	54
Experience	<i>Easier</i>	53	53	53	53
	<i>More Challenging</i>	53	53	53	53
Totals		212	213	212	213
			425	425	

More detail regarding these variables and other aspects of the design is provided below.

Form Types

As noted above, this research will include a baseline test, to compare the performance of the current mortgage loan disclosures with the proposed integrated disclosures. This research will inform the Bureau's evaluation of the proposed integrated disclosures. However, primarily as a result of amendments to the statutory requirements made by the Dodd-Frank Act, the proposed disclosures include more information than the current disclosures. In addition, in an effort to reduce paperwork burden for both industry and consumers, the Bureau's proposed integrated disclosures include disclosures under other statutory provisions that are currently provided as separate pages. For example, the proposed Loan Estimate includes an appraisal notice required by the Equal Credit Opportunity Act and a servicing disclosure required under section 6 of RESPA.

The current disclosures used in this study will not be altered to reflect the greater set of information required by the Dodd-Frank Act or the other disclosures integrated into the proposed integrated disclosures. There are no current regulations that implement the new statutory disclosures, and thus, there is no "baseline" for them. In addition, lenders currently present the disclosures required under other statutory provisions separately from the mortgage disclosures and in varied formats. Thus, there is no "baseline" for mortgage disclosures that include these other statutory requirements. Accordingly, the current disclosures used in this study will only include the current Truth in Lending early and final statements, the Good Faith Estimate, and the HUD-1 settlement statement mortgage loan disclosures required by TILA and sections 4 and 5 of RESPA.³

Loan Types

The study will involve both fixed rate and adjustable rate mortgage loans as two conditions. As described below, these conditions will be further separated into relatively easier and more challenging loans and comparisons. Each loan used by a respondent will be identified by the name of the lender. There will be two sets of lender names to reduce potential bias. A table with information regarding the loan types that will be used in this research is attached as Appendix G to the Supporting Statement.

Although more prevalent in years prior to the recent financial crisis, loan features such as interest-only payments, prepayment penalties, negative amortization, and optional payments are still possible, and some are currently available to consumers. These features present unique risks to consumers in the form of potentially increased payments, principal balances, and costs of refinancing. In addition, new product features may be developed that also contain such risks. The existence of such a risk in a loan is an important aspect of the loan. Accordingly, this quantitative research will also include several loans with such features to evaluate the performance of the proposed integrated disclosures with respect to such risks.

Difficulty Types

The study will involve both fixed rate and adjustable rate mortgage loans as two conditions. These conditions will be further separated into relatively easier and more

³ As implemented by current 12 CFR parts 1024 and 1026.

challenging loans and comparisons, denoted as the Difficulty Type. The relatively easier loans and comparisons will involve simpler loan products and less variation in product types, loan terms, and closing costs. The relatively challenging loans and comparisons involve more complex products and more variations in the product type, loan terms, and closing costs.

The difficult loans will include features such as interest-only payments, negative amortization, and optional payments, as well as significant increases in closing costs, including increases that violate legal limits on increases. These features present unique risks to consumers in the form of potentially increased payments and principal balances, for which the study should address the performance of the disclosures. In addition, the use of two different Difficulty Types for each Loan Type mitigates any unintended effects of a particular loan product that could be introduced if the study used only one set of loans for each Loan Type.

Consumer Types

The study will include two categories of respondents: those with experience or no experience with home purchase mortgage loans.

- No Experience. This category will be defined as consumers who have never purchased a home. To ensure that the respondents are a part of the intended target audience of the disclosures, potential respondents would also be asked a scale question of whether they intend in the future to purchase a home and finance the purchase with a mortgage loan. To further refine the scale of this interest, the question will ask whether the potential respondent intends to do so in the next 2 years, 5 years, 10 years, 15 years or more, or never. Those who answer “never” will be excluded from participation in the study because they would not be a part of the intended target audience of the disclosures.
- Experience. This category will be defined as consumers who have obtained a purchase money mortgage loan or refinanced in the last five years. To further refine their level of experience, the potential respondents will be asked to identify how many times they have purchased a home with a mortgage loan or refinanced a mortgage loan. To ensure that the respondents are part of the intended target audience, potential respondents will also be asked whether they intend to do so again in the future. To further refine the scale of this interest, the potential respondents will be asked whether they intend to do so in the next 2 years, 5 years, 10 years, 15 years or more, or never. Those who answer “never” will be excluded from participation in the study because they would not be a part of the intended target audience of the disclosures.

Both groups (No Experience and Experience) will be included in the study to increase coverage of the study to the entire target audience for the disclosures and to allow comparison of performance based on this experience variable.

Methodology

Recruitment

As described above and in Part A of the Supporting Statement, potential respondents will be recruited from members of GfK's KnowledgePanel. Participation is voluntary. If the potential respondent possesses the desired characteristics and agrees to participate in the study, a time for the testing is scheduled.

Test Session

Once a test session is scheduled with the potential respondent, it is the responsibility of the potential respondent to travel to the testing facility where the session will be conducted. When the potential respondent arrives, he or she will complete the Respondent Questionnaire (attached as Appendix B) to confirm his or her information. The respondent is also provided a Privacy Statement and Consent Form (attached as Appendix B) to sign and a Privacy Act Statement (attached as Appendix E) in a form the respondents can take with them. Both forms inform the respondent about how the privacy of the respondent's identity will be maintained.

As described above, the test sessions will be conducted in groups of 8-12 respondents. The test sessions will be led by a trained researcher who will act as a proctor. The trained researcher will read the Proctor Instructions (attached as Appendix F) to the respondents and be available to answer procedural (not content) questions. Each respondent will work individually to complete the structured questionnaire. The Form Type and Loan Type will be randomized so that each respondent in a particular test session will be in a different cell than the other respondents. No respondent will be able to "copy" from another respondent and they will be told that each set of materials used by each respondent in the session is different. Administering the structured questionnaires in small groups, rather than individually, will enable the Bureau and the Contractor to maximize time and resources available for the research. The testing sessions will last for 60 minutes. The Contractor's testing personnel will keep track of the length of testing sessions to ensure that they do not exceed 60 minutes.

Structured Questionnaire

The study will use the Structured Questionnaire (attached as Appendix C, specifically C-1 for the proposed integrated forms and C-2 for the current disclosures, as described in Part A of this Supporting Statement). The Structured Questionnaire will be divided into five parts, with each part consisting of its own set of instructions, mortgage loan disclosures, and questions. The mortgage loan disclosures will be provided to respondents in different colored envelopes, and each color will correspond to its own part of the questionnaire. At the beginning of the testing session, the respondent will be informed that the session will take no more than 60 minutes. The proctors will take 5 minutes to introduce the study and give instructions for completing the questionnaire.

The first part of the Structured Questionnaire will last 10 minutes. The respondents will be read a scenario in which the respondents have selected a home they are interested in purchasing and have contacted two lenders about obtaining a mortgage loan. Respondents will be asked to review two mortgage loans disclosures that would have been provided after applying for a mortgage loan (application disclosure). Respondents will be asked to select the loan they would be most interested in obtaining and to provide a written explanation of their decision. The second part will also last 10 minutes, and ask several multiple choice and open-ended questions about the two loans introduced in the first section. These questions will ask respondents to identify and compare differences between the two loans. The third part will last 15 minutes and ask multiple choice and open-ended questions about one of the two loans.

Respondents will then begin the fourth part, when they will be provided with a scenario that they have selected a loan and are preparing to go to settlement or closing. They are told that they will receive the disclosure that they would receive around the time they settle or close on the mortgage loan (final disclosure). The fourth part will last 10 minutes. Respondents will be asked to review one of the application disclosures from the previous parts and a corresponding final disclosure. The respondent is asked to answer multiple choice and open-ended questions that ask the respondent to compare the estimated and final loan terms and costs. The fifth part will last five minutes, use the same disclosures as the fourth part, and ask the respondents attitudinal questions about the ease of use of the disclosures.

3. Methods to Maximize Response Rates and Address Issues of Non-Response

To reduce the number of no-shows, scheduled volunteers will be sent a reminder letter giving the time of the testing session and directions to the testing facility. They will also receive a reminder telephone call prior to their scheduled time. These are set forth in the Recruiting Script attached as Appendix A to the Supporting Statement. Over-scheduling will be used to ensure that an appropriate number of respondents are obtained for each testing session. At least two additional respondents, as is determined necessary by the Contractor, will be scheduled for each testing session.

4. Testing of Procedures or Methods

Pretesting of data collection materials is conducted by the Contractor, using volunteer or Contractor employees as part of their routine job responsibilities.

5. Contact Information for Statistical Aspects of the Design

Questions regarding any statistical aspects employed, data collection procedures used, or administrative questions regarding the CFPB use of this clearance should be directed to:

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