

Know Before You Owe: Evolution of the Integrated TILA-RESPA Disclosures

Closing Disclosure

Closing Information
 Date Issued: 3/20/2012
 Closing Date: 3/23/2012
 Disbursement Date: 3/23/2012
 Agent: ABC Settlement
 File #: 01234
 Property: 156 Avenue A
 Anytown, MD 12345
 Sale Price: \$240,000

Transaction Information
 Borrower: James White and Jane Johnson
 123 Anywhere Street, Apt 100
 Anytown, MD 12345
 Seller: John Wilson
 123 Somewhere Drive
 Anytown, MD 12345
 Lender: First Bank

*This form is a statement of the
document with your Loan Estimate*

Loan Terms	
Loan Amount	\$216,500
Interest Rate	4.375%
Monthly Principal & Interest	\$789.32

*See Projected Payments Below
for your Total Monthly Payment*

Can I: **NO** Principal & Interest
NO Mortgage Insurance
YES Estimated Escrow
Amount Can Increase Over Time

YES **Estimated Total Monthly Payment**
** Adjusts every month*
** Can go as high as \$1,966*
Estimated Taxes, Insurance & Assessments
Amount Can Increase Over Time
 See Details on Page 4

Projected Payments

Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Year 12
Principal & Interest	\$789.32	\$1,266 min \$1,582 max	\$1,266 min \$1,664 max	\$1,266 min \$1,664 max
Mortgage Insurance	+ 164.18	+ 164.18	+ 164.18	+ 164.18
Estimated Escrow	+ 699.50	+ 699.50	+ 699.50	+ 699.50
Estimated Total Monthly Payment	\$1,653.00	\$2,130 - \$2,446	\$2,130 - \$2,528	\$1,966
Estimated Taxes, Insurance & Assessments	\$842.09 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input checked="" type="checkbox"/> Other: Windstorm Insurance, HOA See page 4 for escrowed property costs. You must pay for other property costs separately.		

In escrow
 YES
 YES
 SOME



Know Before You Owe: Evolution of the Integrated TILA-RESPA Disclosures

Presented to the
Consumer Financial Protection Bureau
July 9, 2012

Presented by
Kleimann Communication Group, Inc.
12600 Saint James Road
Rockville, Maryland 20850-3747
www.kleimann.com



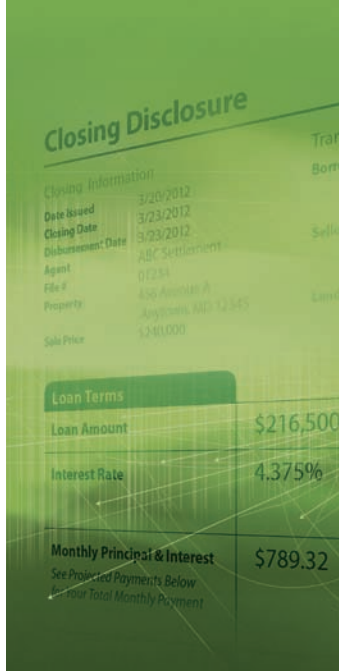


Table of Contents

- Acknowledgements x
- Executive Summary xi
- SECTION 1. CONTEXT 1**
- Chapter 1. Introduction**
- Overview 3
- This Project 4
- Our Approach to Disclosure Development 5
- Outline of this Report 9
- Chapter 2. The Proposed Designs for the Loan Estimate and the Closing Disclosure**
- Overview 11
- Loan Estimate Design 13
- Closing Disclosure Design 17

Chapter 3. Methodology

Overview	25
Phase 1. Context Setting	27
Phase 2. Formative Development	28
Phase 3. Usability Testing Methodology	29
Research Limitations	39

Chapter 4. Formative Development Results

Overview	41
Persona Results	42
Rapid Prototyping Results	44

SECTION 2. ITERATIVE TESTING OF THE LOAN ESTIMATE

47

Chapter 5. Usability Testing Round 1 – Baltimore, MD (May 2011)

Introduction	49
Research Goals	50
Who We Tested	50
Interview Structure	50
What We Tested — Design	52
What We Tested — Loan Type	52
Overall Findings	53
Specific Findings	57
Design Findings	62
Industry Findings	65
Conclusion	67
Revisions to Prototype, Round 1	68

Chapter 6. Usability Testing Round 2 – Los Angeles, CA (June 2011)

Introduction	71
Research Goals	72
Who We Tested	72
Interview Structure	72
What We Tested—Design	75
What We Tested—Loan Type	75
Overall Findings	76
Specific Findings	81
Design Findings	85
Industry Findings	88
Conclusion	90
Revisions to Prototype, Round 2	91

Chapter 7. Usability Testing Round 3 – Chicago, IL (August 2011)

Introduction	93
Research Goals	94
Who We Tested	94
Interview Structure	94
What We Tested—Design	95
What We Tested—Loan Type	96
Overall Findings	97
Specific Findings	101
Design Findings	104
Industry Findings	107
Conclusion	110
Revisions to Prototype, Round 3	111

Chapter 8. Usability Testing Round 4 – Springfield, MA (September 2011)

Introduction	115
Research Goals	116
Who We Tested	116
Interview Structure	116
What We Tested—Design	118
What We Tested—Loan Type	118
Overall Findings	119
Specific Findings	125
Design Findings	132
Conclusion	134
Revisions to Prototype, Round 4	135

Chapter 9. Usability Testing Round 5 – Albuquerque, NM (October 2011)

Introduction	137
Research Goals	138
Who We Tested	138
Interview Structure	138
What We Tested—Design	139
What We Tested—Loan Type	139
Overall Findings	140
Specific Findings	144
Design Findings	148
Industry Findings	150
Conclusion	153

SECTION 3. ITERATIVE TESTING OF THE CLOSING DISCLOSURE	155
-------------------------------------------------------------------------	-----

Chapter 10. Usability Testing Round 6 – Des Moines, IA (November 2011)

Introduction	157
Research Goals	157
Who We Tested	158
Interview Structure	158
What We Tested—Design	159
What We Tested—Loan Type	160
Overall Findings	161
Design Findings	172
Conclusion	174
Revisions to Prototype, Round 6	175

Chapter 11. Usability Testing Round 7 – Birmingham, AL (December 2011)

Introduction	179
Research Goals	180
Who We Tested	180
Interview Structure	181
What We Tested—Design	182
What We Tested—Loan Type	183
Overall Findings	185
Design Findings	191
Loan Estimate & Unofficial Worksheet Testing	193
Conclusion	198
Revisions to Prototypes, Round 7	200

Chapter 12. Usability Testing Round 8 – Philadelphia, PA (January 2012)

Introduction	205
Research Goals	205

Who We Tested	206
Interview Structure	207
What We Tested—Design	208
What We Tested—Loan Type	209
Overall Findings	210
Design Findings	220
Conclusion	224
Revisions to Prototypes, Round 8	226

Chapter 13. Usability Testing Round 9 – Austin, TX (February 2012)

Introduction	229
Research Goals	229
Who We Tested	230
Interview Structure	231
What We Tested—Design	234
What We Tested—Loan Type	234
Overall Findings	235
Design Findings	256
Conclusion	258
Revisions to Prototypes, Round 9	259

Chapter 14. Usability Testing Round 10 – Baltimore, MD (March 2012)

Introduction	261
Research Goals	262
Who We Tested	262
Interview Structure	262
What We Tested—Design	263
What We Tested—Loan Type	263
Overall Findings	264

Design Findings	268
Conclusion	270
Revisions to Prototypes, Round 10	271

SECTION 4. CONCLUSION 281

Chapter 15. Conclusion

Introduction	281
Trade-offs and Comparisons	283
Affordability	288
Activation through Design	293
Comparison Measures	303

APPENDICES

Appendix A. Demographic Summary: Rounds 1 - 10	
Appendix B. Loan Estimates (English) for Round 1 - Baltimore, MD	
Appendix C. Loan Estimates (Spanish) for Round 1 - Baltimore, MD	
Appendix D. Loan Estimates (English) for Round 2 - Los Angeles, CA	
Appendix E. Loan Estimates (Spanish) for Round 2 - Los Angeles, CA	
Appendix F. Loan Estimates for Round 3 - Chicago, IL	
Appendix G. Loan Estimates for Round 4 - Springfield, MA	
Appendix H. Loan Estimates for Round 5 - Albuquerque, NM	
Appendix I. Settlement Disclosures for Round 6 - Des Moines, IA	
Appendix J. Loan Estimates, Settlement Disclosures, and Worksheets for Round 7 - Birmingham, AL	
Appendix K. Loan Estimate and Settlement Disclosures for Round 8 - Philadelphia, PA	
Appendix L. Loan Estimate and Settlement Disclosures for Round 9 - Austin, TX	
Appendix M. Loan Estimate and Closing Disclosure for Round 10 - Baltimore, MD	
Appendix N. References	

Figures

Figure 1. Kleimann’s Integrated Approach to Consumer-Focused Disclosures	5
Figure 2. User-Centered Design Process	26
Figure 3. Testing Locations	36
Figure 4. Design Variations, February – April 2011	41

Tables

Table 1. General Demographics	35
Table 2. Key Features Tested	38
Table 3. Disclosure Rotations, Round 1	51
Table 4. Loan Type, Round 1	53
Table 5. Design Preferences, Round 1	63
Table 6. Revisions to Prototype, Round 1	68
Table 7. Disclosure Rotations, Round 2	74
Table 8. Loan Type, Round 2	75
Table 9. Design Preferences, Round 2	86
Table 10. Revisions to Prototype, Round 2	91
Table 11. Disclosure Rotations, Round 3	95
Table 12. Loan Type, Round 3	96
Table 13. Truth in Lending Statements, Round 3	103
Table 14. Design Preferences, Round 3	106
Table 15. Revisions to Prototype, Round 3	111
Table 16. Disclosure Rotations, Round 4	117
Table 17. Loan Type, Round 4	119
Table 18. Truth in Lending and Other Statements, Round 4	130
Table 19. Design Preferences, Round 4	134
Table 20. Revisions to Prototype, Round 4	135
Table 21. Disclosure Rotations, Round 5	139
Table 22. Loan Type, Round 5	140
Table 23. Disclosure Rotations, Round 6	159

Table 24. Loan Type, Round 6	160
Table 25. Revisions to Settlement Disclosure Prototype, Round 6	175
Table 26. Disclosure Rotations, Round 7 (C11)	182
Table 27. Loan Type, Round 7 (C11)	184
Table 28. Revisions to Settlement Disclosure Prototype, Round 7 (C11)	200
Table 29. Revisions to Loan Estimate Prototype, Round 7 (C11)	204
Table 30. Disclosure Rotations, Round 8 (C12)	208
Table 31. Loan Type, Round 8 (C12)	210
Table 32. Revisions to Loan Estimate Prototype, Round 8 (C12)	226
Table 33. Revisions to Settlement Disclosure Prototype, Round 8 (C12)	227
Table 34. Disclosure Rotations, Conditions 1 and 2, Round 9 (C13)	233
Table 35. Disclosure Rotations, Condition 3, Round 9 (C13)	233
Table 36. Disclosure Rotations, Industry, Round 9 (C13)	233
Table 37. Loan Type, Round 9 (C13)	234
Table 38. Revisions to Loan Estimate Prototype, Round 9 (C13)	259
Table 39. Revisions to Settlement Disclosure Prototype, Round 9 (C13)	266
Table 40. Disclosure Rotations, Round 10 (C14)	263
Table 41. Loan Type, Round 10 (C14)	263
Table 42. Revisions to Loan Estimate Prototype, Round 10 (C14)	271
Table 43. Revisions to Closing Disclosure Prototype, Round 10 (C14)	271

Acknowledgements

This work was completed under Contract TCFP11BPA001 and Calls 001, 002, 003, and 004.

The Consumer Financial Protection Bureau (CFPB) team was led by Benjamin K. Olson, Managing Counsel, and the testing process was led by Richard B. Horn, Senior Counsel. The team included David Friend, Michael G. Silver and Priscilla Walton-Fein, Counsels; Andrea Pruitt Edmonds, Joan Kayagil, Thomas J. Kearney, and R. Colgate Selden, Senior Counsels; and Paul Mondor, Senior Counsel & Special Advisor.

We also want to acknowledge Pamela Blumenthal with the Department of Housing and Urban Development who led initial phases of the project, and Vanessa Perry, Ph.D. from George Washington University who served in an advisory capacity to the CFPB team.

The Kleimann Communication Group team was led by Susan Kleimann, Ph.D., Barbra Kingsley, Ph.D. and Kristin Kleimann.

In addition, Susan Bodde was the lead designer from the Graves Fowler Creative team.

Executive Summary

The Consumer Financial Protection Bureau (CFPB) initiated the Mortgage Disclosure Project in response to the Dodd-Frank Act mandate to develop mortgage loan disclosures that satisfy both the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). From January 2011 to July 2012, the CFPB Mortgage Disclosure Project team worked collaboratively with Kleimann Communication Group, Inc., to iteratively design and qualitatively test two mortgage loan disclosures:

1. Loan Estimate (issued in connection with the application process)
2. Closing Disclosure (issued in connection with the settlement process)

As directed by the Dodd-Frank Act, the purposes of the disclosures are to aid consumer understanding and facilitate compliance with TILA and RESPA. Considering these purposes, the CFPB's Mortgage Disclosure Project had three objectives:

- **Comprehension.** The disclosures should enable consumers to understand the basic terms of a loan and its costs, both immediate and over time.
- **Comparison.** The disclosures should enable consumers to compare one Loan Estimate to another and identify the differences. The disclosures should also enable consumers to compare the Loan Estimate to the Closing Disclosure to identify differences between the two and understand or ask about the reasons for those differences.
- **Choice.** Both comprehension and comparison should enable consumers to make informed decisions. For the Loan Estimate, consumers should be able to decide on the best loan for their personal situation. For the Closing Disclosure, they should be able to decide whether to close on the loan after reviewing the final terms and costs.

We used the following key questions to guide the development of design and content for the Loan Estimate and Closing Disclosure:

- How do we ensure that consumers can see the key terms and costs of a loan and the variability of those terms and costs?
- How do we ensure that consumers can understand affordability issues – both at closing and over the life of the loan?
- How do we ensure that consumers can compare across loan types and lenders?
- How do we ensure that consumers use this information to make trade-offs to select the best loan for their personal situation?
- How do we ensure that consumers can identify differences and the sources of those differences between a Loan Estimate and a Closing Disclosure?

From the beginning, we worked within certain constraints for content and design. We limited content, for the most part, to loan information and information required by statute. We limited the text on the page, so the key loan information was readily visible to consumers. We also excluded educational material. The team understood that consumers interact with both the Loan Estimate and the Closing Disclosure within a system of other oral and written information. The intent was to make educational material available through a CFPB website, e.g., www.consumerfinance.gov/learnmore. We also neutralized many of the design elements to have participants focused on content, to minimize testing variables, and to minimize burden on industry. We used no color, and designed for a letter-sized page instead of legal-sized. We chose and limited our font selection to MyriadPro, a very readable and widely-used font, with a large x-height and san-serif styling to ease legibility. We also kept the point size as large as possible considering readability and other factors.

To ensure the key loan information was readily visible, the proposed designs for the Loan Estimate and the Closing Disclosure share many design features that increase visibility of their elements and reduce cognitive burden. Full reversed tabs (white text over black background) for titles help consumers easily see and find the separated sections. Within a section, we arranged information in tables and used shading for headings, so consumers could easily distinguish between the categories of information. Within a table, we highlighted key phrases to encourage consumers to read them, even if they were skimming.

The Proposed Designs

Loan Estimate

For the final proposed design of the Loan Estimate, we used a simple structure for the three-page disclosure that placed a summary of the loan terms and costs on page 1 before the details on pages 2 and 3:

Page 1 provides a summary of the key loan terms and costs. The design separates figures that show the basic loan terms (e.g., the principal and interest payment and loan costs) from figures that provide consumers with affordability information (e.g., the total monthly payment and cash required to close).

Page 2 itemizes the costs associated with the loan and with the real estate transaction. It also provides adjustable rate and adjustable payment information when applicable.

Page 3 provides three figures that consumers can use to compare loan offers: *In 5 Years*, *APR*, and *Total Interest Percentage*. It also lists disclosures mandated by statute, including disclosures for *Appraisal*, *Assumption*, *Homeowner's Insurance*, *Late Payments*, *Loan Acceptance*, *Liability After Foreclosure*, *Refinancing*, and *Servicing*. Page 3 has space for an optional consumer signature line so the lender can document receipt of the disclosure.

One goal for the Loan Estimate was to reduce the number of pages of disclosures that a consumer receives during the application process to improve consumer comparison and choice. By our calculation, the three-page Loan Estimate replaces at least seven pages: the three-page Good Faith Estimate, the two-page Truth in Lending disclosure, and at least two additional pages for the *Appraisal* and *Servicing* disclosures currently required under the Equal Credit Opportunity Act and RESPA, respectively. In addition, the Loan Estimate includes several new disclosures, such as the *Total Interest Percentage* and *Liability after Foreclosure* disclosures required by the Dodd-Frank Act.

Page 1 of Loan Estimate

1 Loan Details: Shows transaction information and includes a reminder to save the Loan Estimate to compare with the Closing Disclosure.

2 Loan Terms: Shows the basic terms of the loan and whether they may increase or change.

3 Projected Payments: Shows affordability information, including how and when principal and interest payments can change over time, the estimated taxes and insurance for the property, and the total monthly payment, including if taxes and insurance payments are escrowed or excluded from the loan payment.

4 Cash to Close: Shows additional affordability costs, including cash to close and components of the closing costs.

FICUS BANK

4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 1/21/2013

APPLICANTS James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, ST 12345

PROPERTY 456 Somewhere Avenue
Anytown, ST 12345

SALE PRICE \$240,000

LOAN TERM 30 years

PURPOSE Purchase

PRODUCT 5 Year Interest Only, 5/3 Adjustable Rate

LOAN TYPE Conventional FHA VA

LOAN ID # 123456789

RATE LOCK NO YES, until 3/22/2013 at 5:00 p.m. EST

Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 2/4/2013 at 5:00 p.m. EST

Loan Terms

Can this amount increase after closing?

Loan Amount	\$211,000	NO
Interest Rate	4.375%	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as 8% in year 9 See AIR table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$769.27	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as \$1,622 in year 9 Includes only interest and no principal until year 6 See AP table on page 2 for details
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$769.27 <i>only interest</i>	\$1,233 min \$1,542 max	\$1,233 min \$1,622 max	\$1,233 min \$1,622 max
Mortgage Insurance	+ 107	+ 107	+ 107	+ —
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 533	+ 533	+ 533	+ 533
Estimated Total Monthly Payment	\$1,409	\$1,873 – \$2,182	\$1,873 – \$2,262	\$1,766 – \$2,155

Estimated Taxes, Insurance & Assessments
Amount Can Increase Over Time

\$533
a month

This estimate includes

Property Taxes

Homeowner's Insurance

Other:

See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.

In escrow?

YES

YES

Cash to Close

Estimated Cash to Close	\$31,587	Includes \$8,587 in Closing Costs (\$4,527 in Loan Costs + \$4,060 in Other Costs – \$0 in Lender Credits). See details on page 2.
--------------------------------	----------	------------------------------------------------------------------------------------------------------------------------------------

Visit www.consumerfinance.gov/learnmore for general information and tools.

LOAN ESTIMATE
PAGE 1 OF 3 • LOAN ID # 123456789

Page 2 of Loan Estimate

Closing Cost Details

Loan Costs **1**

A. Origination Charges	\$2,850
% of Loan Amount (Points)	\$0
Application Fee	\$400
Loan Origination Fee	\$2,450

B. Services You Cannot Shop For **\$820**

Appraisal Fee	\$305
Credit Report Fee	\$30
Flood Determination Fee	\$35
Lender's Attorney	\$400
Tax Status Research Fee	\$50

C. Services You Can Shop For **\$857**

Pest Inspection Fee	\$125
Survey Fee	\$150
Title - Lender's Title Policy	\$132
Title - Settlement Agent Fee	\$300
Title - Title Search	\$150

D. TOTAL LOAN COSTS (A + B + C) **\$4,527**

Adjustable Payment (AP) Table **4**

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Seasonal Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,233 - \$1,542 at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$1,622 starting at 108th payment

Other Costs **2**

E. Taxes and Other Government Fees	\$152
Recording Fees and Other Taxes	\$152
Transfer Taxes	\$0

F. Prepays	\$1,205
Homeowner's Insurance Premium (_12_ months)	\$1,000
Mortgage Insurance Premium (_0_ months)	\$0
Prepaid Interest (\$25.64 per day for 8 days @ 4.375%)	\$205
Property Taxes (_0_ months)	\$0

G. Initial Escrow Payment at Closing **\$1,067**

Homeowner's Insurance	\$83.33 per month for 2 mo.	\$167
Mortgage Insurance	\$0 per month for 0 mo.	\$0
Property Taxes	\$450.00 per month for 2 mo.	\$900

H. Other **\$1,636**

Title - Owner's Title Policy (optional)	\$1,636
-----------------------------------------	---------

I. TOTAL OTHER COSTS (E + F + G + H) **\$4,060**

J. TOTAL CLOSING COSTS **\$8,587**

D + I	\$8,587
Lender Credits	- \$0

Calculating Cash to Close **3**

Total Closing Costs (J)	\$8,587
Closing Costs Financed (Included in Loan Amount)	\$0
Down Payment/Funds from Borrower	\$29,000
Deposit	- \$5,000
Funds for Borrower	\$0
Seller Credits	- \$1,000
Adjustments and Other Credits	\$0
Estimated Cash to Close	\$31,587

Adjustable Interest Rate (AIR) Table **5**

Index + Margin	LIBOR + 4%
Initial Interest Rate	4.375%
Minimum/Maximum Interest Rate	5%/8%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	3%
Subsequent Changes	3%

1 Loan Costs: Lists the costs that are associated with the loan, including the lender's charges and required services. These costs are grouped by services for which the consumer can or cannot shop for their own service providers.

2 Other Costs: Lists the costs that are not determined by the lender, including taxes, insurance premiums, and optional services.

3 Calculating Cash to Close: Lists the costs that make up the *Cash to Close*, including deposit and credits.

4 Adjustable Payment (AP) Table: Lists payments that can adjust, such as Interest Only Payments.

5 Adjustable Interest Rate (AIR) Table: Lists the details for adjustable interest rates.

Page 3 of Loan Estimate

1 Lender details: Provides basic contact and identification information for the lender and mortgage broker, if needed.

2 Comparisons: Provides three different ways a consumer can compare one loan to another—the total paid and principal paid in 5 years (*In 5 Years*), the *APR*, and the *Total Interest Percentage*.

3 Other Considerations: Includes several current and newly-required disclosure statements.

4 Confirm Receipt: Allows for consumer signatures to document receipt of the disclosure.

Additional Information About This Loan

LENDER	Ficus Bank	MORTGAGE BROKER	Pecan Mortgage Broker Inc.
NMLS/LICENSE ID		NMLS/LICENSE ID	222222
LOAN OFFICER	Joe Smith	LOAN OFFICER	Jane Jones
NMLS ID	12345	NMLS ID	67890
EMAIL	jsmith@ficusbank.com	EMAIL	jjones@pecanmortgagebroker.com
PHONE	111-222-3333	PHONE	333-444-5555

Comparisons	Use these measures to compare this loan with other loans.
In 5 Years	\$57,324 Total you will have paid in principal, interest, mortgage insurance, and loan costs. \$0 Principal you will have paid off.
Annual Percentage Rate (APR)	5.231% Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	99.104% The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisal We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.

Assumption If you sell or transfer this property to another person, we
 will allow, under certain conditions, this person to assume this loan on the original terms.
 will not allow this person to assume this loan on the original terms.

Homeowner's Insurance This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.

Late Payment If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Refinance Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Servicing We intend
 to service your loan. If so, you will make your payments to us.
 to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature _____ Date _____ Co-Applicant Signature _____ Date _____

Closing Disclosure

To enable comparison with the Loan Estimate, the final design of the Closing Disclosure uses the same design principles and basic structure and format as the Loan Estimate. Consumers can recognize the format from the Loan Estimate and build on that knowledge. This recognition of and experience with the format is particularly important for the Closing Disclosure because it must provide significantly more information – often in greater detail – than the Loan Estimate.

The basic structure of the Closing Disclosure is as follows:

Page 1 of the Closing Disclosure essentially mirrors page 1 of the Loan Estimate for ease of comparison. Like page 1 of the Loan Estimate, it gives a basic summary of the *Loan Terms* and affordability information (*Projected Payments* and *Cash to Close*).

Page 2 of the Closing Disclosure, like page 2 of the Loan Estimate, provides information about closing costs, but in significantly more detail because it must serve as a record of the loan and real estate transaction.

In contrast to the Loan Estimate, **page 3** of the Closing Disclosure provides a *Calculating Cash to Close* table and detailed *Summaries of Transactions* for borrowers and sellers. The table is an expanded version of the *Calculating Cash to Close* table from the Loan Estimate. It documents changes between the Loan Estimate and the Closing Disclosure and briefly explains why the change occurred or where to find details about the changes. In combination with page 2, the *Summaries of Transactions* document the loan and real estate transaction for both the borrower and seller. They include items not present on the Loan Estimate, such as prorated property costs paid at closing or whether the seller's loans are paid off.

Pages 4 and 5 are similar to page 3 of the Loan Estimate. Like that page, they provide statements required by statute and related information. The section titled *Loan Disclosures* on page 4 provides loan-specific disclosures, including disclosures for *Assumption*, *Demand Feature*, *Late Payment*, *Negative Amortization*, *Partial Payment*, *Security Interest*, and *Escrow Account*. The section titled *Loan Calculations* on page 5 provides a chart of loan-specific calculations (*Total Payments*, *Finance Charge*, *Amount Financed*, *APR*, *Total Interest Percentage*, and *Approximate Cost of Funds*). A section titled *Other Disclosures* includes disclosures for *Appraisal*, *Contract Details*, *Liability after Foreclosure*, *Refinance*, and *Tax Deductions*. A chart contains *Contact Information* for the lender, mortgage broker, two real estate brokers, and a settlement agent. The page includes a *Questions* box to refer consumers to the CFPB website. An optional consumer signature line allows the lender to document receipt of the disclosure.

As with the Loan Estimate, one goal was to reduce the number of pages of disclosures that consumers receive during the settlement process – again to improve consumers' ability to easily compare their estimate with the Closing Disclosure. By our calculation, the five-page Closing Disclosure replaces at least nine pages: the three-page HUD-1, the two-page Truth in Lending disclosure, and several additional disclosures required by the Dodd-Frank Act, such as: (1) *Negative Amortization*, (2) *Partial Payment Policy*, (3) *Escrow Account Information*, and (4) *Liability after Foreclosure*.

Page 1 of Closing Disclosure

- 1 **Loan Details:** Shows transaction information.
- 2 **Loan Terms:** Shows the basic terms of the loan and whether they may increase or change.
- 3 **Projected Payments:** Shows affordability information, including how and when principal and interest payments can change over time, the estimated taxes and insurance for the property, and the total monthly payment, including if taxes and insurance payments are escrowed or excluded from the loan payment.
- 4 **Cash to Close:** Shows additional affordability costs, including cash required to close and components of the closing costs.

Closing Disclosure This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information

Date Issued 9/10/2012
Closing Date 9/14/2012
Disbursement Date 9/14/2012
Agent Epsilon Title Co.
File # 12-3456
Property 456 Somewhere Ave
Anytown, ST 12345
Sale Price \$180,000

Transaction Information

Borrower John A. and Mary B.
123 Anywhere Street
Anytown, ST 12345
Seller Steve C. and Amy D.
321 Somewhere Drive
Anytown, ST 12345
Lender Ficus Bank

Loan Information

Loan Term 30 years
Purpose Purchase
Product Fixed Rate
Loan Type Conventional FHA
 VA
Loan ID # 123456789
MIC # 000654321

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <small>See Projected Payments Below for Your Total Monthly Payment</small>	\$761.78	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Years 1-7		Years 8-30	
Payment Calculation				
Principal & Interest		\$761.78		\$761.78
Mortgage Insurance	+	82.35	+	—
Estimated Escrow <small>Amount Can Increase Over Time</small>	+	206.13	+	206.13
Estimated Total Monthly Payment		\$1,050.26		\$967.91

Estimated Taxes, Insurance & Assessments <small>Amount Can Increase Over Time See Details on Page 4</small>	\$356.13 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input checked="" type="checkbox"/> Other: Homeowner's Association <small>See page 4 for escrowed property costs. You must pay for other property costs separately.</small>	In escrow? YES YES NO
-------------------------------------------------------------------------------------------------------------------------------	---------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------

Cash to Close	Includes	
Cash to Close	\$14,272.35	\$9,729.54 in Closing Costs (\$4,694.05 in Loan Costs + \$5,035.49 in Other Costs – \$0 in Lender Credits). See details on page 2.

CLOSING DISCLOSURE PAGE 1 OF 5 • LOAN ID # 123456789

Page 2 of Closing Disclosure

Closing Cost Details

Loan Costs	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges	\$1,802.00				
01 0.25 % of Loan Amount (Points)	\$405.00				
02 Application Fee	\$300.00				
03 Underwriting Fee	\$1,097.00				
04					
05					
06					
07					
08					
B. Services Borrower Did Not Shop For	\$236.55				
01 Appraisal Fee to John Smith Appraisers Inc.					\$405.00
02 Credit Report Fee to Information Inc.		\$29.80			
03 Flood Determination Fee to Info Co.	\$20.00				
04 Flood Monitoring Fee to Info Co.	\$31.75				
05 Tax Monitoring Fee to Info Co.	\$75.00				
06 Tax Status Research Fee to Info Co.	\$80.00				
07					
08					
09					
10					
C. Services Borrower Did Shop For	\$2,655.50				
01 Pest Inspection Fee to Pests Co.	\$120.50				
02 Survey Fee to Surveys Co.	\$85.00				
03 Title – Insurance Binder to Epsilon Title Co.	\$650.00				
04 Title – Lender’s Title Insurance to Epsilon Title Co.	\$500.00				
05 Title – Title Search to Epsilon Title Co.	\$800.00				
06 Title – Settlement Agent Fee to Epsilon Title Co.	\$500.00				
07					
08					
D. TOTAL LOAN COSTS (Borrower-Paid)	\$4,694.05				
Loan Costs Subtotals (A + B + C)	\$4,664.25	\$29.80			
Other Costs	\$85.00				
E. Taxes and Other Government Fees	\$85.00				
01 Recording Fees Deed: \$40.00 Mortgage: \$45.00	\$85.00				
02 State Transfer Tax			\$950.00		
F. Prepays	\$2,138.24				
01 Homeowner’s Insurance Premium (12 mo.) to Insurance Co.	\$1,209.96				
02 Mortgage Insurance Premium (mo.)					
03 Prepaid Interest \$17.44 per day from 9/14/12 to 10/1/12	\$296.48				
04 Property Taxes (6 mo.) to Any County USA	\$631.80				
05					
G. Initial Escrow Payment at Closing	\$412.25				
01 Homeowner’s Insurance \$100.83 per month for 2 mo.	\$201.66				
02 Mortgage Insurance per month for mo.					
03 Property Taxes \$105.30 per month for 2 mo.	\$210.60				
04					
05					
06					
07					
08 Aggregate Adjustment	- 0.01				
H. Other Costs	\$2,400.00				
01 Real Estate Commission to Alpha Real Estate Broker			\$700.00		
02 Real Estate Commission to Omega Real Estate Broker			\$700.00		
03 Title – Owner’s Title Insurance to Epsilon Title Co.	\$1,000.00				
04 HOA Capital Contribution to HOA Acre Inc.	\$500.00				
05 HOA Dues Oct. 2012 to HOA Acre Inc.	\$150.00				
06 Home Inspection Fee to Engineers Inc.	\$750.00			\$750.00	
07 Home Warranty Fee to XYZ Warranty Inc.			\$450.00		
08					
I. TOTAL OTHER COSTS (Borrower-Paid)	\$5,035.49				
Other Costs Subtotal (E + F + G + H)	\$5,035.49				
J. TOTAL CLOSING COSTS (Borrower-Paid)	\$9,729.54				
Closing Costs Subtotals (D + I)	\$9,699.74	\$29.80	\$2,800.00	\$750.00	\$405.00
Lender Credits					

CLOSING DISCLOSURE

PAGE 2 OF 5 • LOAN ID # 123456789

1 Loan Costs: Lists the costs that are associated with the loan, including the lender’s charges and required services. These costs are grouped by services for which the consumer can or cannot shop for their own service providers. Also identifies who paid the costs and when.

2 Other Costs: Lists the costs that are not determined by the lender, including taxes, insurance premiums, and optional services. Also identifies who paid the costs and when.

3 Total Closing Costs (Borrower-Paid): Calculates the closing costs for the borrower, factoring in any lender credits.

Page 3 of Closing Disclosure

1 Calculating Cash to Close: Like the Loan Estimate, this section lists the elements that make up the Cash to Close, including any deposit and credits. Also lists the amounts from the Loan Estimate and the final costs to show changes and briefly explains why the change occurred or where more detail about the change is located on the disclosure.

2 Summaries of Transactions: A carry-over from the HUD-1 revised to have more plain language, it summarizes the distribution of funds.

1 Use this table to see what has changed from your Loan Estimate.

Calculating Cash to Close	Estimate	Final	Did this change?
Total Closing Costs (J)	\$8,054.00	\$9,729.54	YES - See Total Loan Costs (D) and Total Other Costs (I)
Closing Costs Paid Before Closing	\$0	-\$29.80	YES - You paid these Closing Costs before closing
Closing Costs Financed (Included in Loan Amount)	\$0	\$0	NO
Down Payment/Funds from Borrower	\$18,000.00	\$18,000.00	NO
Deposit	-\$10,000.00	-\$10,000.00	NO
Funds for Borrower			NO
Seller Credits	\$0	-\$2,500.00	YES - See Seller Credits in Section L
Adjustments and Other Credits	\$0	-\$927.39	YES - See details in Sections K and L
Cash to Close	\$16,054.00	\$14,272.35	

2 Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION		SELLER'S TRANSACTION	
K. Due from Borrower at Closing	\$189,784.74	M. Due to Seller at Closing	\$180,085.00
01 Sale Price of Property	\$180,000.00	01 Sale Price of Property	\$180,000.00
02 Sale Price of Any Personal Property Included in Sale		02 Sale Price of Any Personal Property Included in Sale	
03 Closing Costs Paid at Closing (J)	\$9,699.74	03	
04		04	
Adjustments		05	
05		06	
06		07	
07		08	
Adjustments for Items Paid by Seller in Advance		Adjustments for Items Paid by Seller in Advance	
08 City/Town Taxes to		09 City/Town Taxes to	
09 County Taxes to		10 County Taxes to	
10 Assessments to		11 Assessments to	
11 HOA Dues 9/14/12 to 9/30/12	\$85.00	12 HOA Dues 9/14/12 to 9/30/12	\$85.00
12		13	
13		14	
14		15	
15		16	
L. Paid Already by or on Behalf of Borrower at Closing	\$175,512.39	N. Due from Seller at Closing	\$115,562.39
01 Deposit	\$10,000.00	01 Excess Deposit	\$10,000.00
02 Borrower's Loan Amount	\$162,000.00	02 Closing Costs Paid at Closing (J)	\$2,800.00
03 Existing Loan(s) Assumed or Taken Subject to		03 Existing Loan(s) Assumed or Taken Subject to	
04		04 Payoff of First Mortgage Loan	\$100,000.00
05 Seller Credit	\$2,500.00	05 Payoff of Second Mortgage Loan	
Other Credits		06	
06 Rebate from Epsilon Title Co.	\$750.00	07	
07		08 Seller Credit	\$2,500.00
Adjustments		09	
08		10	
09		11	
10		12	
11		13	
Adjustments for Items Unpaid by Seller		Adjustments for Items Unpaid by Seller	
12 City/Town Taxes 7/1/12 to 9/14/12	\$262.39	14 City/Town Taxes 7/1/12 to 9/14/12	\$262.39
13 County Taxes to		15 County Taxes to	
14 Assessments to		16 Assessments to	
15		17	
16		18	
17		19	
CALCULATION		CALCULATION	
Total Due from Borrower at Closing (K)	\$189,784.74	Total Due to Seller at Closing (M)	\$180,085.00
Total Paid Already by or on Behalf of Borrower at Closing (L)	\$175,512.39	Total Due from Seller at Closing (N)	\$115,562.39
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$14,272.35	Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$64,522.61

Page 4 of Closing Disclosure

Additional Information About This Loan

Loan Disclosures 1

Assumption

- If you sell or transfer this property to another person, your lender
- will allow, under certain conditions, this person to assume this loan on the original terms.
 - will not allow assumption of this loan.

Demand Feature

- Your loan
- has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.
 - does not have a demand feature.

Late Payment

If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

- Under your loan terms, you
- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
 - may have monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
 - do not have a negative amortization feature.

Partial Payment

Your lender will

- accept payments that are less than the full amount due (partial payments). Partial payments will be applied:

- not accept partial payments.

If this loan is sold, your new lender may have a different policy.

Security Interest

You are granting a security interest in _____
 456 Somewhere Ave., Anytown, ST 12345

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account

For now, your loan

- will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.

Escrow		
Escrowed Property Costs over Year 1	\$2,473.56	Estimated total amount over year 1 for your escrowed property costs: <i>Homeowner's Insurance</i> <i>Property Taxes</i>
Non-Escrowed Property Costs over Year 1	\$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: <i>Homeowner's Association Dues</i> You may have other property costs.
Initial Payment	\$412.25	A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Payment	\$206.13	The amount included in your total monthly payment.

- will not have an escrow account because you declined it your lender does not require or offer one. You must directly pay your property costs, such as taxes and homeowner's insurance. Contact your lender to ask if your loan can have an escrow account.

No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		

In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.

1 **Loan Disclosures:** Includes several current and newly-required disclosure statements.

2 **Escrow Account:** Provides details about the escrow account and an estimate of costs due if there is no escrow account.

Page 5 of Closing Disclosure

1 Loan Calculations: Consolidates six new and previously required calculations.

2 Other Disclosures: Includes several current and newly-required disclosure statements.

3 Questions: Lists both the lender and the CFPB website as sources of information about the loan.

4 Contact Information: Groups contact information as an easy reference.

5 Confirm Receipt: Allows for consumer signatures to document receipt of the disclosure.

Loan Calculations 1	
Total of Payments. Total you will have paid after you make all payments of principal, interest, mortgage insurance, and loan costs, as scheduled.	\$292,420.88
Finance Charge. The dollar amount the loan will cost you.	\$123,997.58
Amount Financed. The loan amount available after paying your upfront finance charge.	\$156,964.47
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	4.441%
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.468%
Approximate Cost of Funds (ACF). The approximate cost of the funds used to make this loan. This is not a direct cost to you.	1.63%

Other Disclosures 2	
Appraisal If the property was appraised for your loan, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.	
Contract Details See your note and security instrument for information about <ul style="list-style-type: none"> • what happens if you fail to make your payments, • what is a default on the loan, • situations in which your lender can require early repayment of the loan, and • the rules for making payments before they are due. 	
Liability after Foreclosure If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan, <ul style="list-style-type: none"> <input checked="" type="checkbox"/> state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information. <input type="checkbox"/> state law does not protect you from liability for the unpaid balance. 	
Refinance Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.	
Tax Deductions If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.	

3 Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/learnmore.

Contact Information 4					
Name	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
	Ficus Bank		Omega Real Estate Broker Inc.	Alpha Real Estate Broker Co.	Epsilon Title Co.
Address	4321 Random Blvd. Somecity, ST 12340		789 Local Lane Sometown, ST 12345	987 Suburb Ct. Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
NMLS/License ID			Z765416	Z61456	Z61616
Contact	Joe S.		Samuel G.	Joseph C.	Sarah A.
Contact NMLS/License ID	12345		P16415	P51461	PT1234
Email	joesmith@ficusbank.com		sam@omegare.biz	joe@alphare.biz	sarah@epsilontitle.com
Phone	123-456-7890		123-555-1717	321-555-7171	987-555-4321

Confirm Receipt **5**

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature _____ Date _____ Co-Applicant Signature _____ Date _____

CLOSING DISCLOSURE PAGE 5 OF 5 - LOAN ID # 123456789

Methodology

We selected a user-centered design process in which typical users influence how the design takes shape. This process stresses how well consumers can use the disclosures and not just what they like about the design. Preferences are important, but performance is paramount.

The user-centered design process has five phases—each of which serves to generate and confirm ideas about the disclosure being developed.¹ The process is exploratory and designed to elicit and test ideas about optimal design that meet the goals of the project: improved consumer comprehension, comparison, and choice. During Phase 1, Context Setting, we reviewed information about the disclosures and related research. During Phase 2, Formative Development, we created over 100 designs and tested them against personas and with rapid prototyping before settling on two designs.

During Phase 3, Iterative Usability Testing, we used the iterative testing process, we used one-on-one interviews with 92 consumers and 22 industry representatives. We tested the prototypes in large, medium, and small-sized cities in each Census region of the country. Participants were recruited in each city to have a broad range of demographics, including consumers who were both experienced and inexperienced with mortgage loans. We first tested the Loan Estimate over six months in five cities: Baltimore, MD; Los Angeles, CA; Chicago, IL; Springfield, MA; and Albuquerque, NM. At the first two cities, we also included nine Spanish-speaking participants. Over the next five months, we tested the Closing Disclosure in five different cities. We tested only the Closing Disclosure in Des Moines, IA and Birmingham, AL. Finally, we tested the Loan Estimate and the Closing Disclosure together in Philadelphia, PA; Austin, TX; and Baltimore, MD.

We varied the loan type to ensure that the Loan Estimate and Closing Disclosure would work with the detail required by different loan types. Each basic interview consisted of a think-aloud, followed by a series of open- and close-ended questions. For the Loan Estimate, we asked participants to compare two or more sample loans and choose the loan they would want. For the Closing Disclosure, we asked participants to compare a Loan Estimate and Closing Disclosure and identify changes in terms and costs. The number of sample loans, the questions themselves, the number of comparisons, and the choice participants were asked to make changed according to the focus of each round. We coded all transcripts using grounded theory to identify themes and to identify how participants performed with the disclosures.

¹ The Mortgage Disclosure Project did not include Phase 4: Validation Testing or Phase 5: Communication within this scope of work.

Findings

Detailed findings of individual rounds of testing are presented in the body of this report, but we have eight key findings grouped into (1) Trade-offs and Comparisons, (2) Affordability, (3) Activation through Design, and (4) Comparison Measures.

Trade-offs and Comparisons

Key Finding 1: Participants used the Loan Estimate to make sophisticated trade-offs among closing costs, interest rate, and payments based on personal situations

Consumers generally looked at three factors when making trade-offs: rates, payments, and closing costs. They made trade-offs within categories (e.g., lower initial rate with higher cap versus higher initial rate with lower cap, bi-weekly payments versus monthly payments) as well as trade-offs across categories (e.g., higher rate and payments with lower closing costs versus lower rate and payments with higher closing costs). Throughout the testing, we noted participants using the prototype Loan Estimates to make multi-factored trade-offs with the various loan products. They considered both the larger context (for example, the economy) as well as their personal financial limitations as they weighed the advantages and disadvantages of the loan products.

Key Finding 2: Participants used the Loan Estimate and Closing Disclosure to identify differences between the estimated and the final numbers

The primary goal of the design of the Closing Disclosure was to ensure that participants could identify differences in the loan terms and costs between the Loan Estimate and the Closing Disclosure.

Both experienced and inexperienced participants immediately noticed the similarities between the first pages of the Loan Estimate and the Closing Disclosure and could use these to quickly identify aspects that changed. In Rounds 8 (Pennsylvania), 9 (Texas), and 10 (Maryland 2), as we revised the designs to increase the similarity between them, participants were better enabled to clearly identify items that had changed. Further, they questioned the changes more. As we changed the design of the Closing Disclosure to make it more similar to the Loan Estimate, participants identified changes more easily and quickly. They often independently raised the question: why had the terms or costs of the loan changed? By the final round, nearly all participants stated that their next step would be to ask why these changes occurred.

Affordability

Key Finding 3: Participants could use the Loan Estimate to assess affordability issues, especially how payments can have a range of costs

Participants were acutely aware of affordability issues, which were one aspect of their trade-off calculus. With the Loan Estimate, participants used the *Loan Terms* and the *Projected Payments* sections to identify two affordability costs—the total monthly payment and changes in payments over time. In the *Loan Terms*, participants read the bulleted items that listed how the interest rate, the loan amount, or the monthly payment could change. They used the *Projected Payments* section to identify how different elements of the payment (principal, interest, taxes, and insurance)

could change over time. Even if they did not fully understand why payments changed, they understood that payments *would* change. They easily used the maximum possible payment amounts to judge their maximum possible costs over time.

Participants often expressed a preference for payment predictability. In general, they talked about predictability in terms of a fixed rate loan. When choosing between two adjustable rate loans, they based their choices on the predictability of the adjustable rate terms, such as the adjustable rate loan with the longer initial payment period (e.g., a five-year introductory fixed rate over a three-year introductory rate). They used the *Loan Terms* and *Projected Payments* to find elements of unpredictability and to compare the levels of predictability in the loans presented to them.

Key Finding 4: Participants used the Loan Estimate and the Closing Disclosure to identify their total monthly costs and to identify if these costs were included in their total monthly payment

Another aspect of affordability is the total monthly cost of the transaction. As discussed in Key Finding 1, participants could easily identify the components of the loan payment, including principal, interest, and mortgage insurance. However, to fully assess affordability, they have to consider the total monthly payment, which includes estimated taxes, insurance, and assessments.

As the design evolved, participants could better understand the difference between the loan payment in *Loan Terms* and the total monthly payment in *Projected Payments*. By the final round of testing, participants could identify whether all, some, or none of their taxes, insurance, and assessments were included in their total monthly payment as an escrow payment.

Participants could use the total monthly payment for evaluating the affordability of a transaction. Both experienced and inexperienced participants could judge when taxes and insurance were included in the payments and recognize that a payment would appear lower if taxes and insurance were not included in the total monthly payment as an escrowed amount. Because they could easily identify when escrow was not included, participants often said they would want it included as a convenience.

Activation through Design

Key Finding 5: In the Loan Estimate, participants were activated to identify costs that they could shop for and to negotiate other costs

Closing costs generally fall into three categories: fees that the lender charges (the lender's own fees and fees charged by providers the lender selects), services that the lender requires (fees charged by providers the borrower may select), and costs that are outside the lender's or the borrower's control (such as taxes and government fees). Borrowers can choose to shop for some specified services or can use the vendors the lender suggests. Borrowers can also attempt to negotiate the fees that the lender charges, such as the origination fee.

The design of the Loan Estimate overtly addressed one type of cost by including a specific category of closing costs titled *Services You Can Shop For*. Participants easily identified this section and said they would shop for some of these services. Further, they also questioned services in categories that were not marked as services for which the consumer could shop.

Key Finding 6: Participants used Closing Cost Details to identify differences more easily between the Loan Estimate and Closing Disclosure when the language, layout, and location of information matched as closely as possible

Our initial prototype design of the *Closing Cost Details* in Round 6 (Iowa) used an organization and design similar to the current HUD-1, including three- and four-digit line numbers. In Round 7 (Alabama), we introduced an alternative design for page 2, structured like page 2 of the Loan Estimate without line numbers. Based on the results of testing, we used the design similar to the Loan Estimate for Rounds 8 (Pennsylvania), 9 (Texas), and 10 (Maryland 2).

Both experienced and inexperienced participants who used the matching design found the changes that had increased costs, identified new fees, and saw fees that had shifted categories. In stark contrast, participants had much more difficulty doing so with the current HUD-1 design that did not match the Loan Estimate. The final rounds of testing focused on further aligning the language and location of information on the Loan Estimate and the Closing Disclosure and ensuring an internal consistency in the Closing Disclosure. During those final rounds, the more closely we aligned these disclosures, the more consumer participants had a heightened sensitivity to sometimes quite subtle differences. This finding reflected a more general observation that as confusing terms were made more understandable and as formats matched more closely, participants engaged more and performed better with the disclosures.

We added sequential numbers to each section of the *Closing Cost Details* for the Closing Disclosure. Although the Loan Estimate did not include line numbers, as we moved to the Closing Disclosure, the quantity of items listed in *Loan Costs* and *Other Costs* in *Closing Cost Details* expanded. In testing, both consumer participants and industry participants stated that they found line numbers to be useful since they simplified how to accurately refer to an item when talking with others involved in the transaction.

Key Finding 7: Participants were more activated to ask questions and challenge costs in a design with itemized closing costs than in a design with lump sum closing costs

In Round 2 (California) and Round 3 (Illinois), we developed two Loan Estimate designs of the closing cost details, one itemized and one with lump sums. But the results were not what we expected. At a deeper performance level, the itemized *Closing Cost Details* activated participants to ask more questions and to challenge costs in the Loan Estimate.

When shown the Loan Estimate with the itemized design (whether first or after they had seen the lump sum design), participants performed better than with the lump sum design. They were willing to challenge more fees in *Sections A* and *B*, stating that they would ask about the fee and would try to eliminate those fees or negotiate a lower cost. They did not limit themselves to challenging only *Section C. Services You Can Shop For*. These participants were also more likely to state that if they could not negotiate better costs, they would go to another lender. Importantly, participants—even those who did not like numbers—stated that engaging with the detail was a fiscal responsibility, and important to them. Also, participants stated that they wanted the itemized design because of the added level of detail. For them, the higher level of itemization signaled a higher level of disclosure.

The itemized design stimulated participants to ask questions that showed the more sophisticated cognitive processing of analysis, evaluation, and synthesis. When provided with itemized breakdowns of costs and fees, participants identified more services or fees that, outside of *Section C. Services You Can Shop For*, could be negotiated. For example, they questioned items listed in *Section A. Origination Charges* and stated that they would want to negotiate some of these items. Some participants suggested an ethical rationale for choosing the more itemized version of page 2. They described buying a house as a major investment—and additional detail helped them make a more “informed purchase” and be more responsible to their families.

Comparison Measures

In the Loan Estimate and Closing Disclosure, on the pages after the *Loan Terms* and the *Closing Cost Details*, we included four measures—*In 5 Years*, *Total Interest Percentage (TIP)*, *Cost of Funds*—and the long-standing *Annual Percentage Rate (APR)*. The *In 5 Years* disclosure is adapted from the current TILA *Total of Payments* disclosure. *TIP* and *Cost of Funds* are new disclosures added by the Dodd-Frank Act. The *APR* provides a measure of the total cost of credit to use for comparing loan products.

Key Finding 8: Of the four comparison measures provided in the Loan Estimate and/or Closing Disclosure, participants used two (*In 5 Years* and *Total Interest Percentage*) to evaluate individual loans and choose between loans. They found two others (*Cost of Funds* and *APR*) confusing and not useful.

Participants in the testing used these four measures in different ways. Most participants used the *In 5 Years* and *TIP* measures as a way to judge the relative merits of two loans and as one factor to consider when evaluating a loan. In contrast, most participants did not use the *Cost of Funds* and the *APR*, commenting that the terms were confusing.

Findings: *In 5 Years*

The *In 5 Years* measure shows the total that will be paid for the loan and the amount of principal that will be paid off in the five years after the loan closes. From the start, participants used this measure to compare the loans given during the testing sessions, identifying the loan that showed more principal paid off in five years as one of their choice factors. Participants often used the *In 5 Years* disclosure to compare the loan with the other loan they were considering and, sometimes, to increase their understanding of loan costs. For example, participants sometimes did not recognize that loans had an “interest only” feature based on the first page of the Loan Estimate, even if they understood that their loan payments would increase. However, when they looked at *In 5 Years*, they grasped quickly that they would be paying only interest for the first five years, and often would reject the loan.

Findings: *Total Interest Percentage (TIP)*

The *TIP* shows the total interest paid over the life of the loan as a percentage of the loan’s principal. In the Loan Estimate, most participants used the *TIP* to compare loans, choosing the lower percentage as a better loan. In the Closing Disclosure, they used the *TIP* as a measure of what they would pay in interest. Although they did not understand the more technical aspects of this measure (such as the difficulty of using it with an adjustable rate loan), participants understood the basic concept of total interest as a percentage of principal.

Findings: Cost of Funds

The *Cost of Funds* represents the cost to the lender of the funds loaned to the consumer. Because *Cost of Funds* was a difficult concept, we experimented with different approaches to language, presentation, and the bases of the calculation over Rounds 5 (New Mexico), 6 (Iowa), 7 (Alabama), 8 (Pennsylvania), and 9 (Texas). We varied the title from *Lender Cost of Funds* to *Average Cost of Funds* to *Approximate Cost of Funds*. In all cases, both experienced and inexperienced participants questioned the *Cost of Funds* and could not explain how this information helped them. Across the five rounds in which it was tested, only one of the 48 tested consumer participants showed any interest in the figure, stating it was “interesting.” However, that participant did not use it to evaluate the loans. All others found the term confusing or stated that since it was not a direct cost to them, it was unimportant to them.

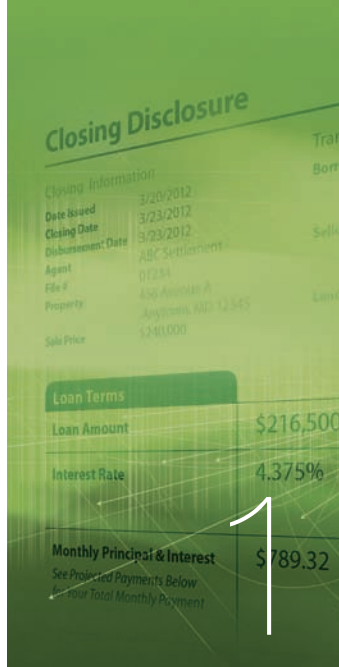
Findings: Annual Percentage Rate (APR)

As other studies have documented, participants often do not grasp the basics of the APR.² They often confused it with the loan’s interest rate. Across the rounds, to clarify the basic concept of the APR, we worked with various descriptions. We found the most effective way to reduce confusion surrounding the APR was to clarify that it was not the interest rate by adding the simple statement: “This is not your interest rate” Obviously, consumers may still have difficulty understanding the concept of the APR, but this statement minimized the confusion with the interest rate.

2 See ICF Macro International, *Design and Testing of Effective Truth in Lending Disclosures: Findings from experimental study*. Available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20081218a8.pdf>;
ICF Macro International, *Design and Testing of Truth in Lending Disclosures for Closed-end Mortgages*. Available at <http://www.federalreserve.gov/boarddocs/meetings/2009/20090723/FullMacroCEReport.pdf>.;
Lacko, J and J. Pappalardo (2007), *Improving Consumer Mortgage Disclosures: An Empirical Assessment of Current and Prototype Disclosure Forms*, Federal Trade Commission, Bureau of Economics Staff Report, Washington, DC. Available at ftc.gov/opa/2007/06/mortgage.shtm

SECTION 1. CONTEXT

In these four chapters, we identify the context for this project and underlying assumptions of the project. As part of this context, we describe the user-centered research methodology that we used for ten rounds of testing of the proposed Loan Estimate and Closing Disclosure. We wanted to ensure that we achieved the overarching goals of consumer comprehension, comparison, and choice. We also describe the results of the formative development stage which established a set of designs with which we could use during the comprehensive testing. Finally, we describe the structure of the proposed design of the Loan Estimate and the Closing Disclosure. These proposed designs demonstrate the “final products” achieved through the course of the project.



Introduction

Overview

The Truth in Lending Act (TILA) mortgage disclosures and the Real Estate Settlement Procedures Act (RESPA) disclosures known as the Good Faith Estimate (GFE) and the HUD-1 settlement statement (HUD-1) have been around for over 30 years. TILA was enacted in 1968 to give consumers an awareness of the cost of credit.¹ RESPA followed in 1974 to give consumers better and timely information about the nature and costs of the settlement process.² Over twenty years later, in 1996, Congress directed the Board of Governors of the Federal Reserve System (FRB) and the Department of Housing and Urban Development (HUD) to create a single disclosure document that would satisfy both acts. If FRB and HUD found that legislative action was needed to unify the disclosures, they were to submit a report to Congress with recommended legislative actions.³ The following year, the two agencies submitted a joint report to Congress concluding that they could not create a single disclosure for both statutes. Instead, the report acknowledged issues with the statutes, including: the RESPA disclosures may come too late for consumers to use them to shop for lenders and loans; the accuracy of the GFE estimates; and the consumers' difficulty with understanding cost information in the TILA disclosures.⁴ The report recommended legislative changes to address these issues and improve consumers' understanding of the cost and transaction.

¹ See 15 U.S.C. Section 1601(a).

² See 12 U.S.C. Section 2601(a), (b)(1).

³ Economic Growth and Regulatory Paperwork Reduction Act of 1996 (Pub. L. 104-208, 110 Stat. 3009), Section 2101.

⁴ Board of Governors of the Federal Reserve System and the Department of Housing and Urban Development, *Joint Report to the Congress Concerning Reform to the Truth in Lending Act and the Real Estate Settlement Procedures Act, July 1998*. <http://www.federalreserve.gov/boarddocs/rptcongress/tila.pdf>.

After a number of years, both agencies proceeded to address some of the issues raised in the report through their regulations. HUD began its revisions to its Regulation X, which implements RESPA, in 2002. In December 2008, HUD issued the revised rule with changes to the GFE and the HUD-1, both of which had been tested extensively with consumers. The new regulations took effect on January 1, 2010.⁵

In 2004, FRB began its re-evaluation of its Regulation Z, which implements TILA. In 2009, FRB proposed significant changes to the TILA mortgage disclosures, along with a suggestion that the agency would work with HUD to develop a combined disclosure.⁶ The passage of the Dodd-Frank Act on July 21, 2010, made this collaboration unnecessary, because it generally transferred TILA and RESPA responsibilities to the newly created Consumer Financial Protection Bureau (CFPB). The Dodd-Frank Act required the CFPB to propose rules and an integrated disclosure that combines the disclosures required under TILA and sections 4 (the HUD-1) and 5 (the GFE) of RESPA, into a single, integrated disclosure for mortgage loan transactions covered by those laws.⁷ The purpose of the integrated disclosure is to (a) facilitate compliance with TILA and RESPA, and (b) aid the borrower in understanding the transaction by using readily understandable language to simplify the technical nature of the disclosures. The CFPB also decided to integrate other required mortgage disclosures into the designs to reduce paperwork burden. The Dodd-Frank Act mandated that a proposed rule be issued no later than July 21, 2012, one year after the transfer of FRB and HUD responsibilities to the CFPB.

This Project

The Consumer Financial Protection Bureau (CFPB) initiated the Mortgage Disclosure Project in response to the Dodd-Frank Act mandate to develop mortgage loan disclosures that satisfy both the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). From January 2011 to July 2012, the CFPB Mortgage Disclosure Project team worked collaboratively with Kleimann Communication Group, Inc., to iteratively design and qualitatively test two mortgage loan disclosures:

1. Loan Estimate (issued in connection with the application process)
2. Closing Disclosure (issued in connection with the settlement process)

As directed by the Dodd-Frank Act, the purposes of the disclosures are to aid consumer understanding and facilitate compliance with TILA and RESPA. Considering these purposes, the CFPB's Mortgage Disclosure Project had three objectives:

- **Comprehension.** The disclosures should enable consumers to understand the basic terms of a loan and its costs, both immediate and over time.
- **Comparison.** The disclosures should enable consumers to compare one Loan Estimate to another and identify the differences. The disclosures should also enable consumers to compare the Loan Estimate to the Closing Disclosure to identify differences between the two and understand or ask about the reasons for those differences.

⁵ For all documentation and the final rule and GFE, see http://www.hud.gov/offices/hsg/rmra/res/respa_hm.cfm

⁶ For the proposed rule and forms, see <http://www.federalreserve.gov/newsevents/press/bcreg/20090723a.htm>

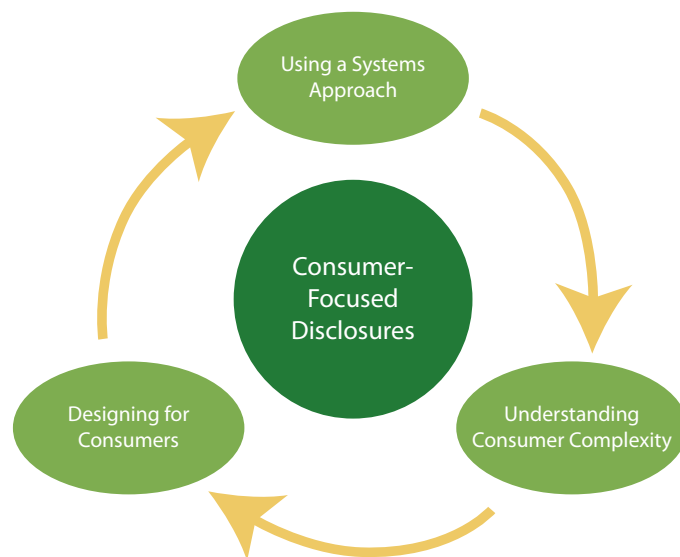
⁷ See Dodd-Frank Act Section 1032 (f).

- **Choice.** Both comprehension and comparison should enable consumers to make informed decisions. For the Loan Estimate, consumers should be able to decide on the best loan for their personal situation. For the Closing Disclosure, they should be able to decide whether to close on the loan after reviewing the final terms and costs.

Our Approach to Disclosure Development

Disclosures must simultaneously be accessible yet satisfy legal requirements, clear yet convey complex information, and technical yet useful to the average citizen. In short, disclosures must serve varied purposes that can, at first glance, seem incompatible. To create a disclosure that works—and works for each of these purposes—requires a strong and innovative development process. Our approach is thus rooted in three elements that are critical to every disclosure project: a systems approach to communication, an understanding of consumer complexity, and information design expertise that is relevant and research-based.

FIGURE 1. Kleimann's Integrated Approach to Consumer-Focused Disclosures



Using a Systems Approach

The process of choosing appropriate financial products is, in itself, complex. Consider the home buying process. The home buying process is more than just a singular financial transaction, as it includes many other considerations, including emotions and dreams. It is a long process that starts as soon as consumers begin looking for a home. Once they find a home, they enter into a contract and must find the mortgage loan. The home loan market offers a dizzying array of loan product choices. Aside from the often confounding variations in loan products, consumers can shop among multiple lenders and negotiate multiple combinations of loan terms. The home buying process ends (sometimes many months later) when the consumers sit at the settlement table.

During this transaction, consumers could receive over 10 different forms and publications related to TILA and RESPA.⁸ Throughout this time period, external circumstances—including interest rates, tax implications, and market conditions—could change rapidly—as could consumers’ own circumstances.

Consumers need disclosures that help them make complex, life-changing financial decisions, weigh risks, and understand the terms and conditions. At the outset, they need clear, easy-to-compare disclosures that help them make decisions about lenders, optimal loan products, and associated risks. At settlement, they need to have clear disclosures that allow them to compare the details of their loan against what they were promised.

Providing consumers with disclosures to help them make key decisions at each stage of the process is one key to improving the financial outcomes for consumers. To achieve this goal, we focused on how to communicate with consumers holistically and consistently.

Understanding Consumer Complexity

At one level, this project was about designing disclosures—plain and simple. Yet nothing is plain or simple about the consumers who will use these disclosures. In truth, consumers, like all of us, are widely different, frustratingly indifferent to some information, naively trusting at times, frequently unaware of risks, and often willing to ignore anything that seems overly complex. At the same time, consumers are usually well-intentioned and want to make good decisions. Disclosures give consumers information, yet consumers must take that information and transform it into actionable knowledge. Therefore, the concept of a “good disclosure” cannot be separated from a deep understanding of consumers: who they are, what they need, what they believe, and how they behave.

Understanding Consumer Complexity

- How do we support consumer cognitive processing as they approach information?
- How do we design with consumer questions in mind?
- How do we orient information to real-life tasks?

We used our knowledge of consumers to drive our design choices. For example, research shows that consumers go through a series of predictable stages when they encounter information: exposure, awareness, comprehension, retention/retrieval, and decision making.⁹ Disclosures must support consumers at each of these cognitive processing stages. In particular, through the disclosure design, we must activate consumers’ interest in the information and help them pay attention. We must also mark information so consumers understand the relevance to them personally. By leveraging what we know about “how people think”—we can design disclosures that

work for them at the different stages.

8 These forms and publications can include the GFE, TILA disclosures, Mortgage Servicing Disclosure Statement, *Shopping for Your Home Loan: HUD’s Settlement Cost Booklet*, an ARM Loan Program disclosure, *Consumer Handbook on Adjustable Rate Mortgages*, Affiliated Business Disclosure Statement, the HUD-1, and others.

9 McGuire, W. J. (1976). Some Internal Psychological Factors Influencing Consumer Choice, *Journal of Consumer Research* 2 (March), 302–19.

Disclosures must also serve as active decision-making tools. Consumers, faced with information overload, often use shortcut heuristics to make a decision, an approach that rarely serves them well. Disclosures need to be structured to encourage an objective decision-making process. The disclosures must anticipate and answer the questions consumers have about the financial process they are engaged in. They also must enable the consumers to complete tasks—for example, choosing an appropriate mortgage loan. We are not directing the consumer to a particular decision. The disclosures need to help consumers identify the information—the facts, risks, and conditions—related to their particular situations so consumers can make the best decision for themselves.

Adding to the complexity, many consumers do not have a high level of financial literacy. Nearly 41% of U.S. adults, or more than 92 million people living in America, gave themselves a grade of C, D, or F on their knowledge of personal finance.¹⁰ Additionally, according to the National Assessment of Adult Literacy in 2003, over 50% of adults could not perform basic, concrete quantitative tasks, such as balancing a checkbook or figuring a tip.¹¹ The lack of financial literacy increases consumer vulnerability and complicates the task of conveying financial risk and its implications. Effective disclosures must convey complex data in a clear and comprehensible way for vulnerable consumers.

To accomplish CPF's larger goals, we created disclosures that recognized and supported key elements of consumer behavior. In this way, consumer behavior drove disclosure design—not vice versa.

Designing for Consumers

A typical, surface-level approach to improving disclosures and the supplemental materials is to simplify the language into plain language or to modify existing presentations. In such an approach, simpler words replace legal language to clear out the “gobbledygook.” Though an important and necessary step, it does not go far enough. Both our experience and the research show that consumers, whether highly literate or not, can better use information that combines visuals with words. If a document is based entirely or even primarily in words, consumers will rarely read it unless they are highly motivated—and most consumers experience information overload with the volume and complexity of loan and real estate processes.

Visual design means more than the use of bullets. It is about arranging text so that it helps to show the relationship of one piece of information to another and to guide the reader to critical information.

Consumer comprehension is indeed critical, but we need to move beyond defining comprehension as the simple decoding of words and definitions. Instead, we need to frame comprehension as the deeper knowledge consumers need to be able to make informed

10 The National Foundation for Credit Counseling and Harris Interactive Inc., Public Relations Research, *The 2009 Consumer Financial Literacy Survey*, March, 2009, <http://www.nfcc.org/newsroom/FinancialLiteracy/files/2009FinancialLiteracySurveyFINAL.pdf>

11 National Center for Education Statistics, *The National Assessment of Adult Literacy, 2003*, http://nces.ed.gov/naalf_demographics.asp

Designing for consumers

- How do we balance the visual and verbal?
- How do we help consumers find and use relevant information?
- Do design elements help consumers convert information to knowledge, and if so, what do those design elements look like?

decisions. Comprehension must include the higher level cognitive skills, such as synthesis and evaluation, as identified by Benjamin Bloom, an eminent U.S. educational psychologist.¹² These higher level cognitive skills are necessary for consumers to be able to understand the implications of their choices and the comparative risk now and in the future. Good design moves consumers to a deeper understanding.

Consumers don't read sequentially. They skip through a document looking for answers to their questions. As a result, they need to be able to find information in a disclosure or document easily; they need to find the details of the information and the organizing principle underlying the document. When consumers work with multiple documents, they need formats that match across all documents. This matching enables them

to find and compare relevant information across documents more easily. By developing a strong visual road map within the disclosures, we enable consumers to better find information they want and need. This visual road map is even more important for low literacy consumers or consumers who are uncomfortable with the content.

Finally, when one goal of a document—such as a disclosure—is for people to compare, it's important to include a sense of the "whole" and of the "part."¹³ For example, in developing this disclosure, we held content standard. So even though not all loans have a prepayment penalty or a balloon payment, these two items were on page 1 of all disclosures to help consumers more easily compare loans that have them and loans that do not. To some extent, this "whole to part" approach lets consumers see and understand all options in a standardized way. Thus, they can make better decisions because they can compare within a context.

In these disclosures, our aim was to achieve cognitive fluency,¹⁴ or the ability of the design to give average people the confidence that they can read, understand, and make decisions. Again, the point of functional disclosures is to help people take information and convert it to actionable knowledge. Every task in this project came back to this core goal: to design disclosures that consumers can use to comprehend, compare, and choose mortgage loans.

12 Bloom B. S. (1956). *Taxonomy of educational objectives, handbook I: The cognitive domain*. New York: David McKay Co., Inc.

13 Garrison, L., Hastak, M., Hogarth, J., Kleimann, S., and Levy, A. (2012). Designing evidence-based disclosures: A case study of financial privacy notices, *Journal of Consumer Affairs* (forthcoming).

14 Song, H. and Schwartz, N. (2008). It's it's hard to read, it's hard to do, *Psychological Science*, 9(10), 986-988.

Outline of this Report

This report describes the process of iteratively designing and developing the proposed Loan Estimate and Closing Disclosure. One goal of the Mortgage Disclosure Project was to achieve high-impact change for consumers' understanding of their mortgage loans. To achieve such a transformation required not simply editing existing options, but exploring new ones, and not simply revising existing disclosures but reinventing them. This report describes the evolution of these disclosures.

We include the designs in the CFPB's proposed rule. These proposed designs demonstrate the "final products" that evolved over the course of the project. In this report, we identify the key components of each disclosure and discuss the robust user-centered methodology used to create the designs and to iteratively test them. Conducted over eleven months, the ten rounds of testing generated a rich array of detailed findings and data. In this report, we discuss each round of testing and how the content and design of each disclosure evolved in response to the iterative consumer testing. For each discussion, we include the draft disclosures we tested.

This report is organized into fifteen chapters and thirteen appendices.

Chapter 2. Proposed Designs. Presents the versions of the proposed Loan Estimate and Closing Disclosure that are included in the CFPB's proposed rule and describes each of the major elements included in those designs.

Chapter 3. Research Methodology. Describes the user-centered design process for developing the disclosures and the qualitative methodology of usability testing, including research questions and research design. We iteratively tested the disclosures with 92 consumers and 22 industry participants (114 total) in ten rounds at nine different sites across the United States.

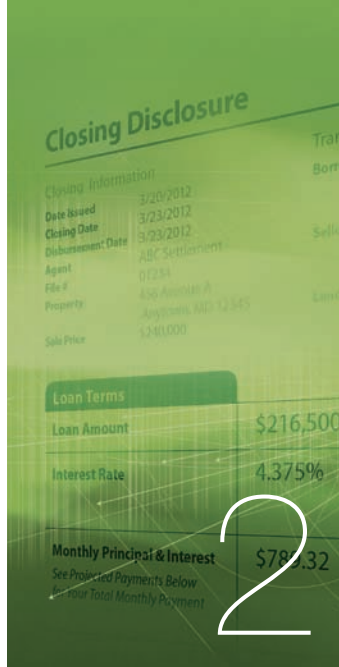
Chapter 4. Formative Development Results. Describes the formative design of the disclosures and includes results for rapid prototype testing used to inform and support development decisions.

Chapters 5 – 9. Usability Testing Rounds – Loan Estimate. Presents findings from each of five rounds of usability testing for the Loan Estimate. The Loan Estimate was tested in five sites with approximately one month of redesign between each testing round. We used the results gathered from consumers in each round to inform changes to the disclosure.

Chapters 10 – 14. Usability Testing Rounds – Closing Disclosure. Presents findings from each of five rounds of usability testing for the Closing Disclosure. The Closing Disclosure was tested in five sites with approximately one month of redesign between each testing round. The last three sites combined testing of the Loan Estimate and the Closing Disclosure to assess how well consumers could compare their Loan Estimate to the Closing Disclosure.

Chapter 15. Conclusion. Presents key findings across all testing sites as well as implications for disclosure design.

Appendices. Includes *Appendix A. Summary of Demographics*, *Appendix B* through *Appendix M* for the disclosures that were tested in each round, and *Appendix N. References*.



The Proposed Designs for the Loan Estimate and the Closing Disclosure

Overview

The goals of the Mortgage Disclosure Project were clear from the start: comprehension, comparison, and choice. To guide us through the development of design and content for the Loan Estimate and Closing Disclosure, we used the following key questions:

1. How do we ensure that consumers can see the key features of a loan and the variability of those terms and cost?
2. How do we ensure that consumers can understand affordability issues – both at closing and over the life of the loan?
3. How do we ensure that consumers can compare across loan types and lenders?
4. How do we ensure that consumers use this information to make trade-offs to select the best loan for their personal situation?
5. How do we ensure that consumers can identify differences and the sources of those differences between a Loan Estimate and a Closing Disclosure?
6. How do we display the cost distributions of the Closing Disclosure?

Decisions about selecting, organizing, and presenting the information required careful thought. The formative development process allowed us to experiment and explore very different ways of presenting and highlighting the information. The rigorous usability testing drove a design-test sequence that fine-tuned content and design decisions.

From the beginning, we worked within two constraints for content and design.

- We limited the content, in general, to loan information and information required by statute. We limited the text on the page, so the key loan information was readily visible to consumers. We excluded educational material. The team posited that consumers interact with both the Loan Estimate and the Closing Disclosure within a system of other oral and written information. The intent was to make educational material available through a CFPB website, e.g., www.consumerfinance.gov/learnmore.
- We neutralized many of the design elements to have participants focused on content, to minimize testing variables, and to minimize burden on industry. We used no color, and designed for a letter-sized page instead of legal-sized. We chose and limited our font selection to MyriadPro, a very readable and widely-used font, with a large x-height and san-serif styling to ease legibility. We kept the point size as large as possible considering readability and other factors.

The proposed designs for the Loan Estimate and the Closing Disclosure share many design features that increased visibility of the disclosure's elements and reduced cognitive burden. Full reversed tabs (white text over black background) for titles helped consumers easily see and find the separated sections. Within a section, we arranged information in tables and used shading for headings, so consumers could easily distinguish between the categories of information. Within a table, we highlighted key phrases to encourage consumers to read them, even if they were skimming.

On the next pages, we present the proposed designs and identify the components of each. These proposed designs demonstrate the "final products" that evolved over the course of this project. The design elements helped consumers more easily comprehend the information presented to them. The distinct and uniform sections allowed consumers to better compare different loan estimates to one another—as well as to compare the final closing disclosure with initial estimates. Together, design elements enhanced consumer ability to choose the best option among competing loans.

Loan Estimate Design

For the proposed design of the Loan Estimate, we used a simple structure for the three-page disclosure that placed a summary of the loan terms and costs before the detailed information:

Page 1 provides a summary of the key loan terms and costs. The design separates figures that show the basic loan terms (e.g., the principal and interest payment and loan costs) from figures that provide consumers with affordability information (e.g., the total monthly payment and cash required to close).

Page 2 itemizes the costs associated with the loan and with the real estate transaction. It also provides adjustable rate and payment information when needed.

Page 3 provides three figures that consumers can use to compare loan offers: *In 5 Years, APR*, and *Total Interest Percentage*. It also lists disclosures mandated by statute, including disclosures for *Appraisal*, *Assumption*, *Homeowner's Insurance*, *Late Payments*, *Loan Acceptance*, *Liability After Foreclosure*, *Refinancing*, and *Servicing*. Page 3 has space for an optional consumer signature line so the lender can document receipt of the disclosure.

One goal for the Loan Estimate was to reduce the number of pages that a consumer receives during the application process to enhance consumer comparison and choice. By our calculation, the three-page Loan Estimate replaces at least seven pages: the three-page Good Faith Estimate, the two-page Truth in Lending disclosure, and at least two additional pages for the *Appraisal* and *Servicing* disclosures currently required under the Equal Credit Opportunity Act and RESPA, respectively. In addition, the Loan Estimate includes several new disclosures, such as the *Total Interest Percentage* and *Liability after Foreclosure* disclosures required by the Dodd-Frank Act.

Other aspects of the Loan Estimate design are discussed in the individual test site chapters and in *Chapter 15. Conclusion*.

Page 1 of Loan Estimate

1 Loan Details: Shows transaction information and includes a reminder to save the Loan Estimate to compare with the Closing Disclosure.

2 Loan Terms: Shows the basic terms of the loan and whether they may increase or change.

3 Projected Payments: Shows affordability information, including how and when principal and interest payments can change over time, the estimated taxes and insurance for the property, and the total monthly payment, including if taxes and insurance payments are escrowed or excluded from the loan payment.

4 Cash to Close: Shows additional affordability costs, including cash to close and components of the closing costs.

FICUS BANK
4321 Random Boulevard • Somecity, ST 12340

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 1/21/2013
APPLICANTS James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, ST 12345
PROPERTY 456 Somewhere Avenue
 Anytown, ST 12345
SALE PRICE \$240,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, 5/3 Adjustable Rate
LOAN TYPE Conventional FHA VA
LOAN ID # 123456789
RATE LOCK NO YES, until 3/22/2013 at 5:00 p.m. EST
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 2/4/2013 at 5:00 p.m. EST

Loan Terms

Loan Amount	\$211,000	Can this amount increase after closing?	NO
Interest Rate	4.375%	YES	<ul style="list-style-type: none"> • Adjusts every three years starting in year 6 • Can go as high as 8% in year 9 • See AIR table on page 2 for details
Monthly Principal & Interest <small>See Projected Payments Below for Your Total Monthly Payment</small>	\$769.27	YES	<ul style="list-style-type: none"> • Adjusts every three years starting in year 6 • Can go as high as \$1,622 in year 9 • Includes only interest and no principal until year 6 • See AP table on page 2 for details
Does the loan have these features?			
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments

Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$769.27 <i>only interest</i>	\$1,233 min \$1,542 max	\$1,233 min \$1,622 max	\$1,233 min \$1,622 max
Mortgage Insurance	+ 107	+ 107	+ 107	+ —
Estimated Escrow <small>Amount Can Increase Over Time</small>	+ 533	+ 533	+ 533	+ 533
Estimated Total Monthly Payment	\$1,409	\$1,873 – \$2,182	\$1,873 – \$2,262	\$1,766 – \$2,155

Estimated Taxes, Insurance & Assessments
Amount Can Increase Over Time

\$533 a month

This estimate includes

Property Taxes
 Homeowner's Insurance
 Other:
See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.

In escrow?
YES

Cash to Close

Estimated Cash to Close \$31,587

Includes **\$8,587** in Closing Costs (\$4,527 in Loan Costs + \$4,060 in Other Costs – \$0 in Lender Credits). See details on page 2.

Visit www.consumerfinance.gov/learnmore for general information and tools.

LOAN ESTIMATE PAGE 1 OF 3 • LOAN ID # 123456789

Page 2 of Loan Estimate

Closing Cost Details

Loan Costs **1**

A. Origination Charges	\$2,850
% of Loan Amount (Points)	\$0
Application Fee	\$400
Loan Origination Fee	\$2,450

B. Services You Cannot Shop For **\$820**

Appraisal Fee	\$305
Credit Report Fee	\$30
Flood Determination Fee	\$35
Lender's Attorney	\$400
Tax Status Research Fee	\$50

C. Services You Can Shop For **\$857**

Pest Inspection Fee	\$125
Survey Fee	\$150
Title - Lender's Title Policy	\$132
Title - Settlement Agent Fee	\$300
Title - Title Search	\$150

D. TOTAL LOAN COSTS (A + B + C) **\$4,527**

Adjustable Payment (AP) Table **4**

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Seasonal Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,233 - \$1,542 at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$1,622 starting at 108th payment

Other Costs **2**

E. Taxes and Other Government Fees	\$152
Recording Fees and Other Taxes	\$152
Transfer Taxes	\$0

F. Prepays	\$1,205
Homeowner's Insurance Premium (_12_ months)	\$1,000
Mortgage Insurance Premium (_0_ months)	\$0
Prepaid Interest (\$25.64 per day for 8 days @ 4.375%)	\$205
Property Taxes (_0_ months)	\$0

G. Initial Escrow Payment at Closing **\$1,067**

Homeowner's Insurance	\$83.33 per month for 2 mo.	\$167
Mortgage Insurance	\$0 per month for 0 mo.	\$0
Property Taxes	\$450.00 per month for 2 mo.	\$900

H. Other **\$1,636**

Title - Owner's Title Policy (optional)	\$1,636
-----------------------------------------	---------

I. TOTAL OTHER COSTS (E + F + G + H) **\$4,060**

J. TOTAL CLOSING COSTS **\$8,587**

D + I	\$8,587
Lender Credits	- \$0

Calculating Cash to Close **3**

Total Closing Costs (J)	\$8,587
Closing Costs Financed (Included in Loan Amount)	\$0
Down Payment/Funds from Borrower	\$29,000
Deposit	- \$5,000
Funds for Borrower	\$0
Seller Credits	- \$1,000
Adjustments and Other Credits	\$0
Estimated Cash to Close	\$31,587

Adjustable Interest Rate (AIR) Table **5**

Index + Margin	LIBOR + 4%
Initial Interest Rate	4.375%
Minimum/Maximum Interest Rate	5%/8%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	3%
Subsequent Changes	3%

1 Loan Costs: Lists the costs that are associated with the loan, including the lender's charges and required services. These costs are grouped by services for which the consumer can or cannot shop for their own service providers.

2 Other Costs: Lists the costs that are not determined by the lender, including taxes, insurance premiums, and optional services.

3 Calculating Cash to Close: Lists the costs that make up the *Cash to Close*, including deposit and credits.

4 Adjustable Payment (AP) Table: Lists payments that can adjust, such as Interest Only Payments.

5 Adjustable Interest Rate (AIR) Table: Lists the details for adjustable interest rates.

Page 3 of Loan Estimate

1 Lender details: Provides basic contact and identification information for the lender and mortgage broker, if needed.

2 Comparisons: Provides three different ways a consumer can compare one loan to another—the total paid and principal paid in 5 years (*In 5 Years*), the *APR*, and the *Total Interest Percentage*.

3 Other Considerations: Includes several current and newly-required disclosure statements.

4 Confirm Receipt: Allows for consumer signatures to document receipt of the disclosure.

Additional Information About This Loan

LENDER	Ficus Bank	MORTGAGE BROKER	Pecan Mortgage Broker Inc.
NMLS/LICENSE ID		NMLS/LICENSE ID	222222
LOAN OFFICER	Joe Smith	LOAN OFFICER	Jane Jones
NMLS ID	12345	NMLS ID	67890
EMAIL	jsmith@ficusbank.com	EMAIL	jjones@pecanmortgagebroker.com
PHONE	111-222-3333	PHONE	333-444-5555

Comparisons	Use these measures to compare this loan with other loans.
In 5 Years	\$57,324 Total you will have paid in principal, interest, mortgage insurance, and loan costs. \$0 Principal you will have paid off.
Annual Percentage Rate (APR)	5.231% Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	99.104% The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

Appraisal We may order an appraisal to determine the property's value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.

Assumption If you sell or transfer this property to another person, we
 will allow, under certain conditions, this person to assume this loan on the original terms.
 will not allow this person to assume this loan on the original terms.

Homeowner's Insurance This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.

Late Payment If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Refinance Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Servicing We intend
 to service your loan. If so, you will make your payments to us.
 to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature _____ Date _____ Co-Applicant Signature _____ Date _____

Closing Disclosure Design

To enable comparison with the Loan Estimate, the proposed design of the Closing Disclosure uses the same design principles and basic structure and format as the Loan Estimate. In part, we wanted consumers to recognize the format from the Loan Estimate so they can build on that knowledge. This recognition of and experience with the format is particularly important for the Closing Disclosure because it must provide significantly more information – often in significantly greater detail – than the Loan Estimate, such as an itemized summary of the borrower’s and seller’s transaction. The increased recognition would help consumers feel less overwhelmed as they encountered a longer, more detailed disclosure because they would recognize the opening page and the overall format. In short, they could build on an existing cognitive map.

The basic structure of the Closing Disclosure is as follows:

- **Page 1** of the Closing Disclosure essentially mirrors page 1 of the Loan Estimate for ease of comparison. Like page 1 of the Loan Estimate, it gives a basic summary of the *Loan Terms* and affordability information (*Projected Payments* and *Cash to Close*).
- **Page 2** of the Closing Disclosure, like page 2 of the Loan Estimate, provides information about closing costs, but in significantly more detail because it must serve as a record of the loan and real estate transaction.
- In contrast to the Loan Estimate, **page 3** of the Closing Disclosure provides a *Calculating Cash to Close* table and detailed *Summaries of Transactions* for borrowers and sellers. The table is an expanded version of the *Calculating Cash to Close* table from the Loan Estimate. The table helps the borrower place the previous page of *Closing Costs* into the larger context of the other elements included when determining the *Cash to Close*, such as the down payment. It also documents changes in the *Cash to Close* between the Loan Estimate and the Closing Disclosure and briefly explains why the change occurred or where the detail of the change is found on the disclosure. In combination with page 2, the *Summaries of Transactions* document the loan and real estate transaction for both the borrower and seller. They include items not present on the Loan Estimate, such as prorated property costs paid at closing or whether the seller’s loans are paid off.
- **Pages 4 and 5** are similar to page 3 of the Loan Estimate. Like that page, they provide statements required by statute and additional useful information. The section titled *Loan Disclosures* on page 4 provides loan-specific disclosures, including disclosures for *Assumption*, *Demand Feature*, *Late Payment*, *Negative Amortization*, *Partial Payment*, *Security Interest*, and *Escrow Account*. The section titled *Loan Calculations* on page 5 provides a chart of loan-specific calculations (*Total Payments*, *Finance Charge*, *Amount Financed*, *APR*, *Total Interest Percentage*, and *Approximate Cost of Funds*). The page also provides more general disclosures in a section titled *Other Disclosures*, including disclosures for *Appraisal*, *Contract Details*, *Liability after Foreclosure*, *Refinance*, and *Tax Deductions*. In addition, a chart contains *Contact Information* for the lender, mortgage

broker, two real estate brokers, and a settlement agent. The page includes a *Questions* box to refer consumers to the CFPB website. An optional consumer signature line allows the lender to document receipt of the disclosure.

As with the Loan Estimate, one goal was to reduce the number of pages that consumers receive during the settlement process – again to enhance the consumers’ ability to easily compare their estimate with the Closing Disclosure. By our calculation, the five-page Closing Disclosure replaces at least nine pages: the three-page HUD-1, the two-page Truth in Lending disclosure, and several additional disclosures required by the Dodd-Frank Act, such as: (1) *Negative Amortization*, (2) *Partial Payment Policy*, (3) *Escrow Account Information*, and (4) *Liability after Foreclosure*.

Other aspects of the Closing Disclosure design are discussed in the individual test site chapters and in *Chapter 15. Conclusion*.

Page 1 of Closing Disclosure

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information

Date Issued 9/10/2012
Closing Date 9/14/2012
Disbursement Date 9/14/2012
Agent Epsilon Title Co.
File # 12-3456
Property 456 Somewhere Ave
 Anytown, ST 12345
Sale Price \$180,000

Transaction Information

Borrower John A. and Mary B.
 123 Anywhere Street
 Anytown, ST 12345
Seller Steve C. and Amy D.
 321 Somewhere Drive
 Anytown, ST 12345
Lender Ficus Bank

Loan Information

Loan Term 30 years
Purpose Purchase
Product Fixed Rate
Loan Type Conventional FHA
 VA
Loan ID # 123456789
MIC # 000654321

Loan Terms

Loan Terms	Can this amount increase after closing?
Loan Amount \$162,000	NO
Interest Rate 3.875%	NO
Monthly Principal & Interest \$761.78 <i>See Projected Payments Below for Your Total Monthly Payment</i>	NO
Does the loan have these features?	
Prepayment Penalty	NO
Balloon Payment	NO

Projected Payments

Payment Calculation	Years 1-7	Years 8-30								
Principal & Interest	\$761.78	\$761.78								
Mortgage Insurance	+ 82.35	+ —								
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 206.13	+ 206.13								
Estimated Total Monthly Payment	\$1,050.26	\$967.91								
Estimated Taxes, Insurance & Assessments <i>Amount Can Increase Over Time See Details on Page 4</i>	\$356.13 a month	<table border="0"> <tr> <td>This estimate includes</td> <td>In escrow?</td> </tr> <tr> <td><input checked="" type="checkbox"/> Property Taxes</td> <td>YES</td> </tr> <tr> <td><input checked="" type="checkbox"/> Homeowner's Insurance</td> <td>YES</td> </tr> <tr> <td><input checked="" type="checkbox"/> Other: Homeowner's Association</td> <td>NO</td> </tr> </table> <p><i>See page 4 for escrowed property costs. You must pay for other property costs separately.</i></p>	This estimate includes	In escrow?	<input checked="" type="checkbox"/> Property Taxes	YES	<input checked="" type="checkbox"/> Homeowner's Insurance	YES	<input checked="" type="checkbox"/> Other: Homeowner's Association	NO
This estimate includes	In escrow?									
<input checked="" type="checkbox"/> Property Taxes	YES									
<input checked="" type="checkbox"/> Homeowner's Insurance	YES									
<input checked="" type="checkbox"/> Other: Homeowner's Association	NO									

Cash to Close

Cash to Close	\$14,272.35	Includes \$9,729.54 in Closing Costs (\$4,694.05 in Loan Costs + \$5,035.49 in Other Costs – \$0 in Lender Credits). See details on page 2.
----------------------	--------------------	---------------------------------------------------------------------------------------------------------------------------------------------

CLOSING DISCLOSURE

PAGE 1 OF 5 • LOAN ID # 123456789

1 **Loan Details:** Shows transaction information.

2 **Loan Terms:** Shows the basic terms of the loan and whether they may increase or change.

3 **Projected Payments:** Shows affordability information, including how and when principal and interest payments can change over time, the estimated taxes and insurance for the property, and the total monthly payment, including if taxes and insurance payments are escrowed or excluded from the loan payment.

4 **Cash to Close:** Shows additional affordability costs, including cash required to close and components of the closing costs.

Page 2 of Closing Disclosure

1 Loan Costs: Lists the costs that are associated with the loan, including the lender's charges and required services. These costs are grouped by services for which the consumer can or cannot shop for their own service providers. Also identifies who paid the costs and when.

2 Other Costs: Lists the costs that are not determined by the lender, including taxes, insurance premiums, and optional services. Also identifies who paid the costs and when.

3 Total Closing Costs (Borrower-Paid): Calculates the closing costs for the borrower, factoring in any lender credits.

Closing Cost Details

Loan Costs	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges	\$1,802.00				
01 0.25 % of Loan Amount (Points)	\$405.00				
02 Application Fee	\$300.00				
03 Underwriting Fee	\$1,097.00				
04					
05					
06					
07					
08					
B. Services Borrower Did Not Shop For	\$236.55				
01 Appraisal Fee to John Smith Appraisers Inc.					\$405.00
02 Credit Report Fee to Information Inc.		\$29.80			
03 Flood Determination Fee to Info Co.	\$20.00				
04 Flood Monitoring Fee to Info Co.	\$31.75				
05 Tax Monitoring Fee to Info Co.	\$75.00				
06 Tax Status Research Fee to Info Co.	\$80.00				
07					
08					
09					
10					
C. Services Borrower Did Shop For	\$2,655.50				
01 Pest Inspection Fee to Pests Co.	\$120.50				
02 Survey Fee to Surveys Co.	\$85.00				
03 Title - Insurance Binder to Epsilon Title Co.	\$650.00				
04 Title - Lender's Title Insurance to Epsilon Title Co.	\$500.00				
05 Title - Title Search to Epsilon Title Co.	\$800.00				
06 Title - Settlement Agent Fee to Epsilon Title Co.	\$500.00				
07					
08					
D. TOTAL LOAN COSTS (Borrower-Paid)	\$4,694.05				
Loan Costs Subtotals (A + B + C)	\$4,664.25	\$29.80			
Other Costs	\$85.00				
E. Taxes and Other Government Fees	\$85.00				
01 Recording Fees Deed: \$40.00 Mortgage: \$45.00	\$85.00				
02 State Transfer Tax			\$950.00		
F. Prepays	\$2,138.24				
01 Homeowner's Insurance Premium (12 mo.) to Insurance Co.	\$1,209.96				
02 Mortgage Insurance Premium (mo.)					
03 Prepaid Interest \$17.44 per day from 9/14/12 to 10/1/12	\$296.48				
04 Property Taxes (6 mo.) to Any County USA	\$631.80				
05					
G. Initial Escrow Payment at Closing	\$412.25				
01 Homeowner's Insurance \$100.83 per month for 2 mo.	\$201.66				
02 Mortgage Insurance per month for mo.					
03 Property Taxes \$105.30 per month for 2 mo.	\$210.60				
04					
05					
06					
07					
08 Aggregate Adjustment	- 0.01				
H. Other Costs	\$2,400.00				
01 Real Estate Commission to Alpha Real Estate Broker			\$700.00		
02 Real Estate Commission to Omega Real Estate Broker			\$700.00		
03 Title - Owner's Title Insurance to Epsilon Title Co.	\$1,000.00				
04 HOA Capital Contribution to HOA Acre Inc.	\$500.00				
05 HOA Dues Oct. 2012 to HOA Acre Inc.	\$150.00				
06 Home Inspection Fee to Engineers Inc.	\$750.00			\$750.00	
07 Home Warranty Fee to XYZ Warranty Inc.			\$450.00		
08					
I. TOTAL OTHER COSTS (Borrower-Paid)	\$5,035.49				
Other Costs Subtotal (E + F + G + H)	\$5,035.49				
J. TOTAL CLOSING COSTS (Borrower-Paid)	\$9,729.54				
Closing Costs Subtotals (D + I)	\$9,699.74	\$29.80	\$2,800.00	\$750.00	\$405.00
Lender Credits					

Page 3 of Closing Disclosure

Calculating Cash to Close 1 Use this table to see what has changed from your Loan Estimate.			
	Estimate	Final	Did this change?
Total Closing Costs (J)	\$8,054.00	\$9,729.54	YES • See Total Loan Costs (D) and Total Other Costs (I)
Closing Costs Paid Before Closing	\$0	– \$29.80	YES • You paid these Closing Costs before closing
Closing Costs Financed (Included in Loan Amount)	\$0	\$0	NO
Down Payment/Funds from Borrower	\$18,000.00	\$18,000.00	NO
Deposit	– \$10,000.00	– \$10,000.00	NO
Funds for Borrower			NO
Seller Credits	\$0	– \$2,500.00	YES • See Seller Credits in Section L
Adjustments and Other Credits	\$0	– \$927.39	YES • See details in Sections K and L
Cash to Close	\$16,054.00	\$14,272.35	

Summaries of Transactions 2 Use this table to see a summary of your transaction.			
BORROWER'S TRANSACTION		SELLER'S TRANSACTION	
K. Due from Borrower at Closing	\$189,784.74	M. Due to Seller at Closing	\$180,085.00
01 Sale Price of Property	\$180,000.00	01 Sale Price of Property	\$180,000.00
02 Sale Price of Any Personal Property Included in Sale		02 Sale Price of Any Personal Property Included in Sale	
03 Closing Costs Paid at Closing (J)	\$9,699.74	03	
04		04	
Adjustments		05	
05		06	
06		07	
07		08	
Adjustments for Items Paid by Seller in Advance		Adjustments for Items Paid by Seller in Advance	
08 City/Town Taxes to		09 City/Town Taxes to	
09 County Taxes to		10 County Taxes to	
10 Assessments to		11 Assessments to	
11 HOA Dues 9/14/12 to 9/30/12	\$85.00	12 HOA Dues 9/14/12 to 9/30/12	\$85.00
12		13	
13		14	
14		15	
15		16	
L. Paid Already by or on Behalf of Borrower at Closing	\$175,512.39	N. Due from Seller at Closing	\$115,562.39
01 Deposit	\$10,000.00	01 Excess Deposit	\$10,000.00
02 Borrower's Loan Amount	\$162,000.00	02 Closing Costs Paid at Closing (J)	\$2,800.00
03 Existing Loan(s) Assumed or Taken Subject to		03 Existing Loan(s) Assumed or Taken Subject to	
04		04 Payoff of First Mortgage Loan	\$100,000.00
05 Seller Credit	\$2,500.00	05 Payoff of Second Mortgage Loan	
Other Credits		06	
06 Rebate from Epsilon Title Co.	\$750.00	07	
07		08 Seller Credit	\$2,500.00
Adjustments		09	
08		10	
09		11	
10		12	
11		13	
Adjustments for Items Unpaid by Seller		Adjustments for Items Unpaid by Seller	
12 City/Town Taxes 7/1/12 to 9/14/12	\$262.39	14 City/Town Taxes 7/1/12 to 9/14/12	\$262.39
13 County Taxes to		15 County Taxes to	
14 Assessments to		16 Assessments to	
15		17	
16		18	
17		19	
CALCULATION		CALCULATION	
Total Due from Borrower at Closing (K)	\$189,784.74	Total Due to Seller at Closing (M)	\$180,085.00
Total Paid Already by or on Behalf of Borrower at Closing (L)	\$175,512.39	Total Due from Seller at Closing (N)	\$115,562.39
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$14,272.35	Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$64,522.61

CLOSING DISCLOSURE PAGE 3 OF 5 • LOAN ID # 123456789

1 Calculating Cash to Close:
Like the Loan Estimate, this section lists the elements that make up the Cash to Close, including any deposit and credits. Also lists the amounts from the Loan Estimate and the final costs to show changes and briefly explains why the change occurred or where more detail about the change is located on the disclosure.

2 Summaries of Transactions:
A carry-over from the HUD-1 revised to have more plain language, it summarizes the distribution of funds.

Page 4 of Closing Disclosure

1 Loan Disclosures: Includes several current and newly-required disclosure statements.

2 Escrow Account: Provides details about the escrow account and an estimate of costs due if there is no escrow account.

Additional Information About This Loan

Loan Disclosures **1**

Assumption

If you sell or transfer this property to another person, your lender

- will allow, under certain conditions, this person to assume this loan on the original terms.
- will not allow assumption of this loan.

Demand Feature

Your loan

- has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.
- does not have a demand feature.

Late Payment

If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- may have monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- do not have a negative amortization feature.

Partial Payment

Your lender will

- accept payments that are less than the full amount due (partial payments). Partial payments will be applied:

- not accept partial payments.

If this loan is sold, your new lender may have a different policy.

Security Interest

You are granting a security interest in _____

456 Somewhere Ave., Anytown, ST 12345

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account **2**

For now, your loan

- will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed below. Without an escrow account, you would pay them directly, possibly in one or two large payments a year. Your lender may be liable for penalties and interest for failing to make a payment.

Escrow		
Escrowed Property Costs over Year 1	\$2,473.56	Estimated total amount over year 1 for your escrowed property costs: <i>Homeowner's Insurance</i> <i>Property Taxes</i>
Non-Escrowed Property Costs over Year 1	\$1,800.00	Estimated total amount over year 1 for your non-escrowed property costs: <i>Homeowner's Association Dues</i> You may have other property costs.
Initial Payment	\$412.25	A cushion for the escrow account you pay at closing. See Section G on page 2.
Monthly Payment	\$206.13	The amount included in your total monthly payment.

- will not have an escrow account because you declined it your lender does not require or offer one. You must directly pay your property costs, such as taxes and homeowner's insurance. Contact your lender to ask if your loan can have an escrow account.

No Escrow		
Estimated Property Costs over Year 1		Estimated total amount over year 1. You must pay these costs directly, possibly in one or two large payments a year.
Escrow Waiver Fee		

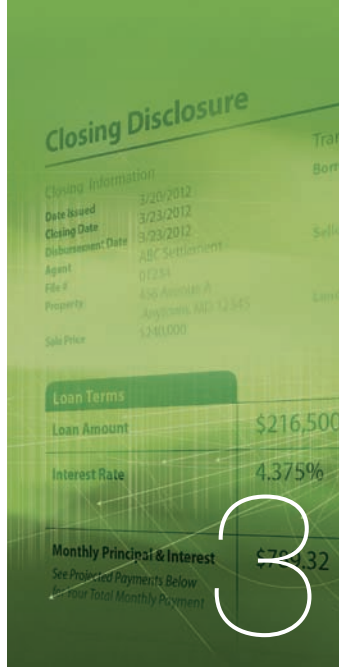
In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add the amounts to your loan balance, (2) add an escrow account to your loan, or (3) require you to pay for property insurance that the lender buys on your behalf, which likely would cost more and provide fewer benefits than what you could buy on your own.

Page 5 of Closing Disclosure

Loan Calculations 1		Other Disclosures 2			
Total of Payments. Total you will have paid after you make all payments of principal, interest, mortgage insurance, and loan costs, as scheduled.	\$292,420.88	Appraisal If the property was appraised for your loan, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.			
Finance Charge. The dollar amount the loan will cost you.	\$123,997.58	Contract Details See your note and security instrument for information about <ul style="list-style-type: none"> • what happens if you fail to make your payments, • what is a default on the loan, • situations in which your lender can require early repayment of the loan, and • the rules for making payments before they are due. 			
Amount Financed. The loan amount available after paying your upfront finance charge.	\$156,964.47	Liability after Foreclosure If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan, <ul style="list-style-type: none"> <input checked="" type="checkbox"/> state law may protect you from liability for the unpaid balance, if you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information. <input type="checkbox"/> state law does not protect you from liability for the unpaid balance. 			
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	4.441%	Refinance Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.			
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.468%	Tax Deductions If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.			
Approximate Cost of Funds (ACF). The approximate cost of the funds used to make this loan. This is not a direct cost to you.	1.63%	<p>3 Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/learnmore.</p>			
Contact Information 4					
Name	Lender Ficus Bank	Mortgage Broker	Real Estate Broker (B) Omega Real Estate Broker Inc.	Real Estate Broker (S) Alpha Real Estate Broker Co.	Settlement Agent Epsilon Title Co.
Address	4321 Random Blvd. Somecity, ST 12340		789 Local Lane Sometown, ST 12345	987 Suburb Ct. Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
NMLS/ License ID			Z765416	Z61456	Z61616
Contact	Joe S.		Samuel G.	Joseph C.	Sarah A.
Contact NMLS/ License ID	12345		P16415	P51461	PT1234
Email	joesmith@ficusbank.com		sam@omegare.biz	joe@alphare.biz	sarah@epsilontitle.com
Phone	123-456-7890		123-555-1717	321-555-7171	987-555-4321
Confirm Receipt 5					
By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.					
Applicant Signature _____		Date _____		Co-Applicant Signature _____	
Date _____		Date _____		Date _____	

- 1 **Loan Calculations:** Consolidates six new and previously required calculations.
- 2 **Other Disclosures:** Includes several current and newly-required disclosure statements.
- 3 **Questions:** Lists both the lender and the CFPB website as sources of information about the loan.
- 4 **Contact Information:** Groups contact information as an easy reference.
- 5 **Confirm Receipt:** Allows for consumer signatures to document receipt of the disclosure.



Methodology

Overview

The development of these two disclosures presented several challenges. First, these were new disclosures. Not merely the merging of the current RESPA and TILA disclosures, the new disclosures needed to include new requirements as well. Second, the housing crisis, if nothing else, established that many consumers had not fully understood the terms of their loans—and that the disclosures used at the time were not working optimally. Consumers, overwhelmed by the number of documents to sign, sometimes merely signed without reading the disclosures, and if they read them, did not understand the implications of what they read. Third, policy was evolving. The CFPB had a clear mission for the disclosures—to aid consumer understanding of the transaction and to facilitate compliance by industry—but the details of what that meant were in development. With the intent of the laws, the housing crisis, and the emerging policy, the consumer was always central.

With these challenges in mind, we selected a user-centered design process. User-centered design emerged about 25 years ago around the publication of Donald Norman's text: *User-Centered System Design: New Perspectives on Human-Computer Interaction*.¹⁵ The field has continued to grow, often focused on web and interactive tools, but the application of user-centered design to paper documents has also grown.¹⁶ The underlying philosophy of user-centered

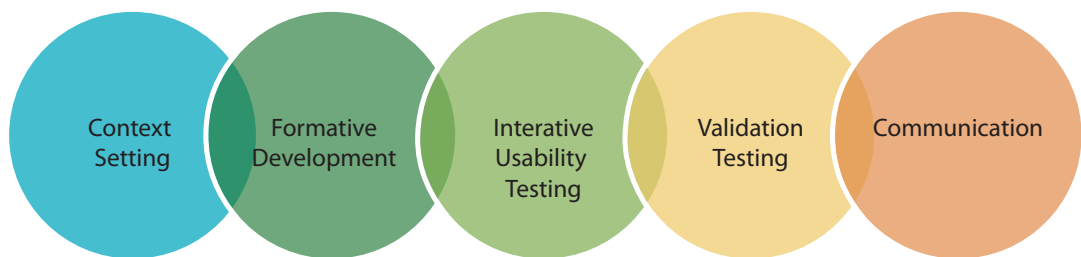
¹⁵ Norman, D. A. and Draper, S. W. (Eds) (1986). *User-Centered Design: New Perspectives on Human-Computer Interaction*. Hillsdale, NJ: Lawrence Erlbaum Associates.

¹⁶ See the work of the Document Design Center at American Institutes for Research (1979-1997); Communications Design Center at Carnegie-Mellon University; and Communication

design is core to this project about a paper-based disclosure: allowing the specific user of a disclosure to influence how the design takes shape. To be clear, this process stresses not merely what the consumer says is liked, but more how well the consumer can use the disclosure.

The user-centered design process has five phases—each of which serves to generate and confirm ideas about the disclosure being developed. The process is exploratory and designed to elicit and test ideas about optimal design that meet the goals of the project: enhanced consumer comprehension, comparison, and choice.

Figure 2. User-Centered Design Process



1. **Context Setting.** To understand context, we collected information from several sources: prior research about the current TIL, GFE, and HUD-1 disclosures and their performance, the laws and technical requirements, the experience of stakeholders, and industry’s concerns with the disclosures. This context ultimately confirmed the goals and intent for the disclosures. These goals drove the initial design concepts.
2. **Formative Development.** In the formative phase, we worked with the team to create multiple disclosure designs for the initial disclosure. We experimented with how to present information, so consumers could understand the basic content and use this understanding to compare across disclosures to make informed decisions. We used exploratory and rapid prototype testing to spur innovation and identify breakthrough designs for consumers.
3. **Iterative Usability Testing.** In this phase, we used the qualitative research method of usability testing to confirm that consumers could understand and effectively use the information. Testing was iterative and focused on resolving both macro and micro issues.
4. **Validation Testing.** A quantitative test provides statistical data and evidence about the performance of the disclosure. Generally, these studies cannot occur until the disclosure design is final. Validation testing, also called Summative Testing, was outside this project’s scope because this project was conducted before the proposed rule was issued.

16 (continued) Research Institute of Australia. See also Buie, E., & Murray, D. (Eds.) (2012). *Usability in government systems: User experience design for citizens and public servants*. Boston, MA: Morgan Kaufmann Press. See also Bosley, D.S. (2011). *Results of Usability Testing for Explanations of Direct Deposit Advance Product*, (unnamed major bank). See also Schriver, K.A. (1997). *Dynamics in Document Design: Creating texts for readers*. New York: John Wiley & Sons. (See particularly chapters 3, 4, and 7.)

5. Communication. No single disclosure does everything. Different consumers will want and need additional information, tools, and media to help them navigate the home-buying process. Communication was outside this project's scope.

The process is flexible in the first phase, gathering information, and is iterative in phases 2 and 3, formative development and usability testing. Neither the validation testing nor communication phases were within the Mortgage Disclosure Project's current scope.

Phase 1. Context Setting

For the Loan Estimate, appropriately setting the context was critical. The Mortgage Disclosure Project team used this phase to identify the background, the existing research, and critical content. To collect this information, the team (1) used blank sheeting; (2) reviewed relevant research; and (3) discussed the technical content. Each of these steps was concurrent, not sequential.

Blank Sheeting

Blank sheeting is a form of brainstorming. Using the Kleimann Blank Sheeting Process[®], we

- guided the team through a series of exercises to identify and set priorities for the tasks that consumers must accomplish with the disclosures;
- used structured and flexible processes to generate information needed for each task and set priorities; and finally
- categorized information by type—education, guidance, transaction information—to identify possible supplementary communication products as well as the key information.

This user-centered approach allowed new ideas—focused on the consumer and the goals of comprehension, comparison, and choice—to surface without framing by prior models, preconceptions, or biases. In particular, the team clarified the purpose of the disclosure, identified key challenges that could impact design, and discussed characteristics of key populations who would interact with the disclosure.

Review of the Relevant Research

To add to the prior research review conducted by the CFPB (which was primarily technical in nature), Kleimann conducted a review of the relevant research and studies on content for the disclosure as well as design features that improve disclosure comprehension and comparability. For this process, we completed the following tasks:

- Performed a meta-analysis of the existing academic and practitioner research to establish the essential information it identifies to enable consumers to make decisions and compare loan offers. We included past research on developing model disclosures, and research reports on financial disclosures.

- Reviewed the list of elements to include in the disclosure based on statutory requirements with the project team.
- Analyzed the key background documents provided by the CFPB staff.
- Researched sources to document current issues with the TIL, GFE, and HUD-1 disclosures.
- Reviewed the materials provided from the roundtable discussions the CFPB held in Fall 2010.

Technical Content Meetings

In the technical content meetings, the team merged the information from the blank sheeting and the review of the relevant literature. Through the course of these meetings, we identified (1) emerging issues, and (2) actual content of the disclosure including requirements and the reasoning for the placement of text and design elements.

Phase 2. Formative Development

With the background information assessed and documented, we began the open-ended and iterative design process. As part of that iterative process, we used two informal techniques to obtain consumer feedback on the design options: (1) team-developed personas¹⁷ and (2) rapid prototyping¹⁸ to obtain quickly consumer feedback about specific aspects of the designs. These informal techniques were used to ensure that formative designs met the overarching goals of the project: consumer comprehension, comparison, and choice.

Personas

One informal way of checking the disclosures was with team-developed personas. The goal was to have the team think concretely about the audience for the disclosures. The team identified general characteristics of home-buying consumers and then key aspects of each persona's life situation, goals, and behaviors.

With the team's input, we developed ten personas ranging in age, ethnicity, education, and socioeconomic backgrounds. We informally checked designs against these detailed personas to identify issues that might affect user comprehension and use of the disclosures.

Rapid Prototyping

Rapid prototyping kept consumers at the center of our design process, so the team did not make design decisions without regard for consumers. The team wanted to collect quick feedback on

17 For the seminal discussion of personas, see Cooper, Alan (2004). *The Inmates Are Running the Asylum: Why High-Tech Products Are Driving Us Crazy and How to Restore the Sanity*. Indianapolis, IN: Sams-Pearson Education. See also http://www.forrester.com/rb/Research/roi_of_personas/g/id/55359A/1/2

18 See Wiklund, Michael E. (Ed.) (1994). *Usability in Practice: How Companies Develop User-Friendly Products*. Boston: AP Professional.

designs or design elements to help create new variations, often the next day. All rapid prototyping discussions were informally held with five volunteer consumers representing a very small sample of convenience. We had focused questions that had emerged during team discussions, but used no formal script and retained no formal notes or summaries of the results.¹⁹ The goal was not to gain scientific or statistical accuracy, but to collect quick, informal outside opinions of what worked and why – a typical process for developing user-centered designs.

Phase 3. Usability Testing Methodology

For the third phase, we used the qualitative research technique of usability testing²⁰ as we iteratively developed and tested first the Loan Estimate and then the Closing Disclosure.

Usability testing has its roots in World War II, when industrial psychologist John C. Flanagan discovered that “by reducing the amount of buttons, knobs, switches, and control panels in new fighter aircraft, they could also dramatically improve operator performance.”²¹ Usability testing was integral to computer development by large firms, such as Xerox PARC, IBM, and other R&D companies. Many consider the 1984 Super Bowl introduction of the Apple Macintosh as the turning point when consumers understood “ease of use” and companies began to sell usability as a differentiating factor.²² In the transition period from the 1980s to the 1990s, three strands came together to firmly establish usability testing as a viable and important tool to create user-centered design in software, consumer products, and documents. In the late 1980s, John Whiteside at Digital Equipment and John Bennet at IBM argued for a new approach to product design and evaluation.²³ In 1988, Donald Norman’s *The Design of Everyday Things* focused on consumer products and showed that basic consideration of how people used products could improve the products and make them usable.²⁴ In 1991, the Society for Technical Communication created its first Special Interest Group in Usability and User, formally bringing the field of documents into the fold.²⁵ Today, usability testing is an essential step in user-centered design, and nearly all industries that produce products and many government agencies use some form of the qualitative research technique of usability testing.²⁶

19 These conversations were informal. Therefore, we did not ask a standard set of questions to more than one person. Instead the purpose was to gain some reactions as quickly as possible.

20 The International Organization for Standardization (9241-11) (ISO) defines usability as “the extent to which a product can be used by specified users to achieve specified goals with effectiveness, efficiency, and satisfaction in a specified context of use.”

21 Spillers, F. (2007). Usability Testing Central. Accessed at http://www.usabilitytestingcentral.com/2007/02/the_history_of_.html

22 Dumas, J. (February 2007). The great leap forward: the birth of the usability profession (1988-1993), *Journal of Usability Studies*, 2(2), 56.

23 Ibid., p. 55.

24 Norman, D. (1988). *The Design of Everyday Things*. New York: Doubleday.

25 Redish, J. (Ginny) (September 2010). Technical communication and usability: intertwined strands and mutual influences commentary, *IEEE Transactions on Professional Communication*. Vol. 53, No.3, 191-201.

26 Within the private sector, major airlines, banks, and health-related companies frequently use usability testing in their development of websites and consumer products and documents. For recent examples, see Kimble, J. (2012). *Writing for dollars, writing to please: The case for plain language in business, government, and law*. Durham, NC: Carolina Academic Press, pp. 125-26 (testing of a company’s computer manuals), p. 128 (testing of a company’s operations manuals), pp. 129-30 (testing of a bank’s call-center manuals). Within government, the Board of Governors of the Federal Reserve System, the Department of Health and Human Services, the Department of Housing and Urban Development, the Department of Veterans Affairs, and the Federal Trade Commission, among others, include usability testing as part of their document development process.

The remainder of this chapter discusses our usability testing methodology and covers the following five topics:

- What we did
- How we recruited and who we tested
- Where we tested
- What we tested
- Research limitations

What We Did

In contrast to many other testing methods, usability testing collects robust qualitative data about the performance of participants instead of just gauging their preferences. It focuses on what participants do as they interact with the disclosure, rather than what they say. What consumers say they do is often quite different from what they actually do. It allows insight into why participants behave in certain ways, why they misinterpret language or emphasis, or why they cannot evaluate and synthesize the information.²⁷ For this project's 10 testing rounds, we made several decisions that shaped our testing approach:

- Identifying research questions and goals
- Using two types of document testing—parallel and iterative
- Using small numbers of participants
- Using individual interviews
- Using grounded theory as our analysis method

Identifying research questions and goals

Although each individual testing round had secondary research questions, throughout the testing for the Loan Estimate we focused on four core questions:

- Can consumers understand the loan transaction including costs and risks?
- Can consumers use the disclosure to compare the same loan products?
- Can consumers use the disclosure to compare different loan products?
- Can consumers use the disclosure to choose between loans and express a reasonable rationale for their choice?

When we turned to the Closing Disclosure, we added two additional research questions:

- Can consumers compare the Loan Estimate and the Closing Disclosure to identify differences and the reasons for those differences?
- Can consumers use the Closing Disclosure alone to identify critical information?

²⁷ Dumas, J. S., and J. C. Redish (1993). *A practical guide to usability testing*. Norwood, NJ: Ablex.

For industry participants, we had a separate, but related set of research questions:

- Where do brokers, lenders, and settlement agents have trouble understanding or explaining the information contained in the disclosure?
- Where do brokers, lenders, and settlement agents expect consumers to have trouble understanding information in the disclosure?
- What suggestions do brokers, lenders, and settlement agents have to improve the two disclosures for consumers?
- What suggestions do brokers, lenders, and settlement agents have to ease implementation for industry?

Based on these core questions, we developed a research schematic for each round of testing. The research schematic laid out the primary and secondary research questions and linked the individual questions included in the moderator’s guide back to the research questions. To some extent, the research schematic focused the Mortgage Disclosure team on the core questions, even when considering secondary questions and identified emerging areas of questioning.

Using two types of document testing—parallel and iterative

Because the Loan Estimate and the Closing Disclosure had complex content, we decided to combine two testing methods to consider alternative disclosure designs: parallel design testing and iterative design testing.

Parallel design testing. Parallel design testing examines different approaches to the whole document or to elements of the document. Rather than having the team forced to select a single design, this testing keeps the design decisions open until performance data can determine which alternative worked better for participants. This project had design alternatives at a high-, mid-, and small-level. In Round 1, the design alternatives were high-level and were considered overall design. In later rounds, mid-level alternatives compared, for example, itemized listings of closing costs to lump sum listings. Small-level alternatives compared, for example, different language for the Approximate Cost of Funds.

Iterative design testing. Iterative design testing examines a document with successive groups of participants. This testing assumes that as we find solutions to the larger design problems, new issues will emerge. Our initial and primary focus was on the page 1 design to make sure that the overall design elements were working and provided the key information. In later rounds, we focused on subsequent pages and on mid- and small-level design issues.

Based on the testing results, we modified the design, sometimes deciding on an alternative and sometimes continuing to develop alternatives for an element. The overall goal was to create a single design based on participant performance.

Using small numbers of participants

The goal of qualitative usability testing is not to develop statistical results; that is the scope of the quantitative validation in user-centered design. In qualitative usability testing, we remain focused on design and how consumers interact with the design, and a small sample size is typical. According to Robert Virzi, an experimental psychologist and usability expert, five participants uncover 80% of usability problems and ten participants uncover 90%.²⁸ Our testing interviewed seven to twelve consumer participants in each site and typically two to six industry participants. (See chapters 5-14 for details.)

Using individual interviews

For our testing structure, the in-person interviews combined a task, the think-aloud protocol, structured questions, and comparisons. To ensure that the presentation order did not influence the results, consumer participants saw loan types and designs in a carefully considered rotation or order. We used a single moderator, skilled in usability testing.

Task. Critical to the success of an individual interview is the framing task given to participants. At a cognitive level, without the framing of a task, participants have no filter for the information that they read. All pieces of information are equally important. With the framing of a task, the participant hones in on information that is critical to completing the task. Although the task scenario is realistic, it is also artificial. Participants must imagine that the task is real—and generally they do. Nielsen discusses the willingness to suspend disbelief as rooted in the human condition and the reason that participants “easily pretend that the scenario is real and that they’re really using the design.”²⁹

For this project, the Loan Estimate task was for a participant to compare two or more loans and select one lender’s loan estimate. With the Closing Disclosure, participants compared the Loan Estimate and the Closing Disclosure to identify differences and to decide if they wanted to move forward with the loan.

Think-aloud protocol. In the think-aloud protocol, participants are given a task and then receive the testing document³⁰. As they engage with it for the first time, they talk out loud, stating what they look at, what they think, and how they reach a decision. The participant provides feedback without questions by the moderator. The goal is to capture participants’ reactions and performance before they can “learn” from the testing and from the moderator asking them questions.

The think aloud requires a deep engagement by the researchers as they observe and evaluate the participant commentary. We look for the source of problems—whether the visual design, logical flow, or language. The participant commentary identifies what participants read, what they miss, what they understand, and what they misunderstand. The commentary also moves beyond surface comprehension to observations of whether participants integrate the information to support a decision. As we discuss in later chapters, to make an informed decision, consumers must have the ability to see and understand different loan terms and costs, consider their personal

28 Virzi, R. (1992). Refining the test phase of usability evaluation: How many subjects is enough? *Human Factors* 34, 457–486.

29 Nielsen, J. (February 14, 2007). *Authentic Behavior Alertbox*, <http://www.useit.com/alertbox/20050214.html>

30 Lewis, C. H. (1982). Using the ‘thinking aloud’ method in cognitive interface design. (*Technical report*). IBM. RC-9265.

circumstances, weigh the trade-offs, make a decision that balances all of these factors, and state the logic behind their choice. The think aloud allowed us to see this typically internal process—and provided insights on how to adjust the design.

Structured questions. Structured questions reinforce the observations of the think aloud about surface level comprehension and navigation. With structured questions, the moderator asks specific, predetermined questions. These questions allow us to identify right or wrong answers, such as “What is the interest rate for this loan?” These objective questions helped to measure the participant’s comprehension and the design’s success at making details salient.

Comparison. The comparison task reinforces the observations of the think aloud about informed decisions. Nearly all participants looked at three or more different loans. When we asked which loan they would choose, they provided their rationale for the trade-offs they would make. As they discussed their reasons, we observed their performance in evaluating the information from the disclosure(s) and synthesizing it. Our goal was to capture the participants’ understanding of trade-offs between loans, so participant performance could guide our revisions.

Using grounded theory as our analysis method

This project used an inductive methodology or grounded theory method to analyze the results of the interviews. Grounded theory involves comparative analysis of data as well as continuously gathering additional data through iterative rounds of data collection and analysis.³¹ As data were compared and analyzed, patterns and themes emerged.

We used four levels of analysis that allowed us to triangulate findings. Similar results from more than one source increases the confidence in that finding. First, during the session, one member of the research team entered responses to each question into a database. Later, that same team member analyzed answers across participants to independently identify themes and patterns. Second, after the interviews, the three members of the research team compared and discussed their own observations of the testing, identifying potentially problematic areas of the disclosure and unexpected results. Third, after the sessions, we coded transcripts of each interview independently without predetermined codes. From these codes, we determined themes and performance. Fourth, we compared these findings with the findings from previous testing rounds to identify themes, ongoing issues, and patterns of where the disclosure needed further refinement. Finally, we integrated the results of these four steps to determine findings for a specific testing round.

How We Recruited and Who We Tested

In total, we interviewed 92 consumer participants, including 11 Spanish-speaking consumer participants, and 22 industry participants. We recruited participants to reflect the general population in terms of demographic measures, such as age, ethnic diversity, education, income, gender, and marital status. We also accounted for varying degrees of experience with the home buying and loan refinancing process, recruiting consumers who have bought or refinanced in the past five years and consumers who have no such experience. Starting in Round 5, we also over-recruited for consumers who were inexperienced with the home-buying and loan refinancing

³¹ Glaser, B. & Strauss, A. (1967). *Discovery of grounded theory*. Chicago: Aldine.

process to ensure that the disclosures would work for this segment of the population as well. In later rounds of testing, the amount of financial information increased because we were testing the Closing Disclosure (and in the last few rounds, the Loan Estimate as well). In light of the financial literacy issues facing the American population, as discussed above, we over-recruited for consumers with lower education to ensure that the disclosures would work for this segment of the population.

For each round, we used a research facility to recruit participants. The facility followed a recruiting script we provided and tallied the demographic categories as they were filled. Participants received a stipend for their time. Each person signed a privacy notice and a consent form, and completed a short questionnaire to verify their demographics and experience. All participant interviews were transcribed, and the transcriptions served for one part of the analysis.

At each site, we recruited seven to twelve English-speaking consumer participants. We recruited two industry participants at each site except for Round 9, in which we had six industry participants, and Round 10, which consisted of only consumer participants. The particular mix varied at each site, depending on the focus of specific research questions. We also wanted to explore if the disclosure had any structural barriers for non-English, and specifically, Spanish-speaking populations. Thus, for the first two rounds of testing, we recruited five Spanish-speaking participants at each of those sites. See Chapter 5 and Chapter 6 for results with Spanish-speaking participants. See *Appendix A: Demographic Summary*.

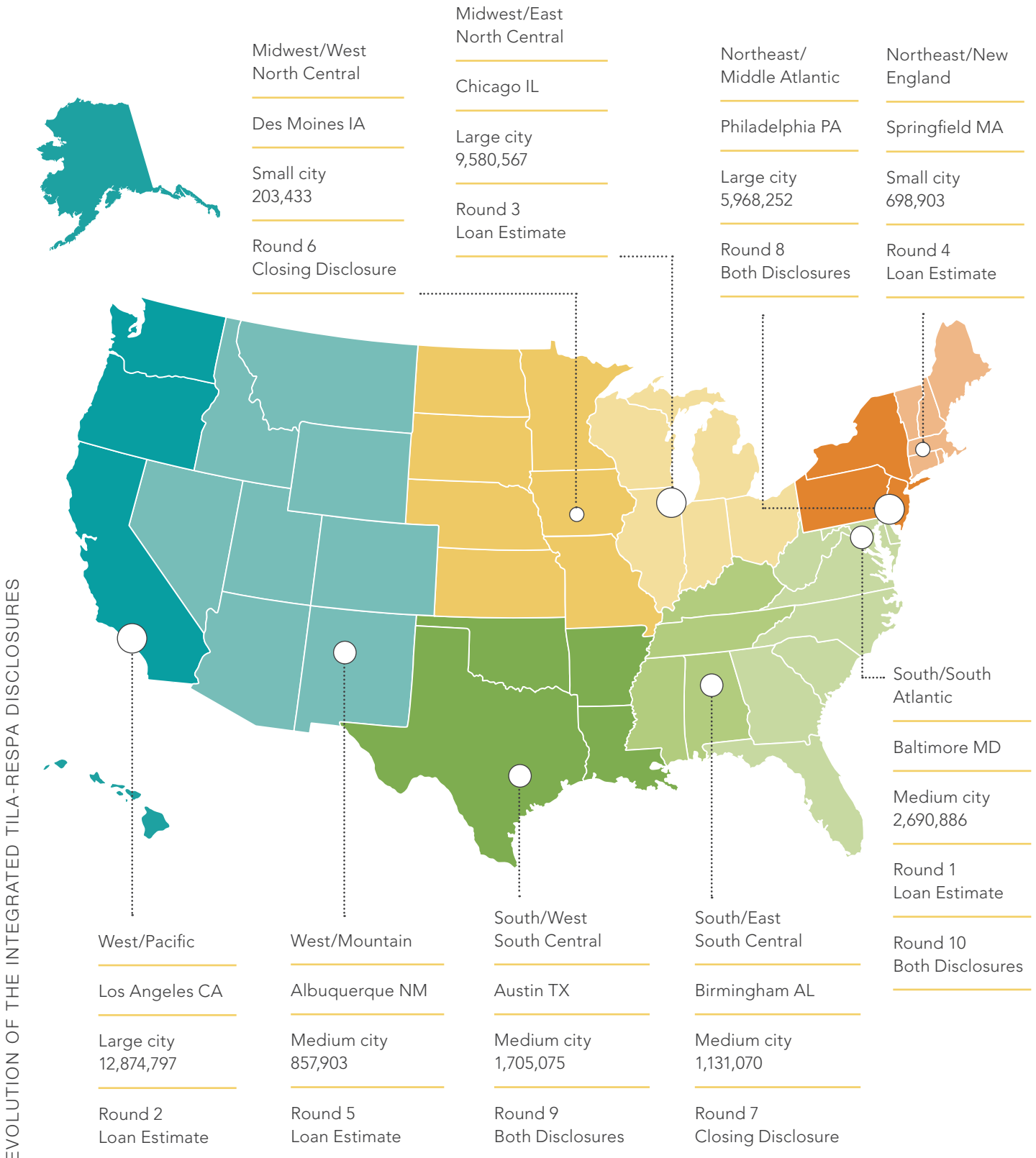
TABLE 1. General Demographics

Demographic	Criteria Category
Geographic location	West, Midwest, Northeast, South
Metro/Micropolitan city size	Large population-5 million and up, medium city population-800,000 to 4.99 million, and small city population under 800,000
Age	Under 30, 30-45, 46-60, and older than 60
Ethnic diversity	Hispanic Origin: Mexican, Puerto Rican, Cuban, Central or S. American, or other Hispanic origin or Non-Hispanic Origin: White, Black, American Indian, Eskimo or Aleut, Asian or Pacific Islander, Other
Education	less than high school, high school graduate/ GED, some college, college grad or additional education
Income	less than \$35,000, \$35,001-70,000, \$70,001-125,000, and over \$125,000
Gender	male or female
Marital status	married, not married
Experience and No Experience	Have owned, bought, or refinanced a house in the last 5 years; have not ever or in the last 5 years owned, bought, or refinanced a house

Where We Tested

We selected a mix of city sizes and had one site in each of the nine U.S. Census Bureau geographic regions and divisions. We used the Census Bureau data to define city size based on the Bureau’s annual population metropolitan and micropolitan statistical areas from July 2009. We tested in the following cities, with the first and last rounds of testing occurring in Baltimore, Maryland. Figure 3 on the next page gives a visual overview of the testing locations.

FIGURE 3: Testing Locations



EVOLUTION OF THE INTEGRATED TILA-RESPA DISCLOSURES

What We Tested

The testing comprised ten rounds:

- Rounds 1-5 focused on developing the design and content of the Loan Estimate.
- Rounds 6 and 7 focused on developing the design and content of the Closing Disclosure.
- Rounds 8-10 focused on refining the designs of both disclosures and on the interaction between the Loan Estimate and the Closing Disclosure.

We varied the loan product and the details in each round. In part, that was because the disclosure has to work for many different loan products. In addition, consumers have to make trade-offs across multiple factors with the same and different loan products, often comparing small differences. Testing simple and complex products, with variations within those products, helped to ensure the robustness of our results.

The following table shows the location of each round of testing, the dates, and the key features that we tested in each round. Rounds 1-9 included consumer and industry participants, while Round 10 (Maryland 2) included only consumer participants. For more detailed information about the specific loans tested, see the chapter for each round. In Round 1 (Maryland) and Round 2 (California), consumers included Spanish-speaking participants.

TABLE 2. Key Features Tested

LOAN ESTIMATE			
Location	Date	Type of Loans	Features
Round 1: Baltimore, MD	May 19-24, 2011	Two 2/1 ARMs Two 30 year, fixed rate loans	Design 1: one column with 100% reversed tabbed headings Design 2: two columns with shaded headings
Round 2: Los Angeles, CA	June 27-July 1, 2011	Two 5/1 ARMs Two 5 year, interest only loans	Design 1: lump sum closing details Design 2: itemized closing details
Round 3: Chicago, IL	August 1-3, 2011	Two 7 year balloon loans One 1/1 ARM with negative amortization One 2/1 ARM with negative amortization	Design 1: lump sum closing details Design 2: itemized closing details
Round 4: Springfield, MA	September 12-14, 2011	One 7/1 ARM One 3/3 ARM Two 15 year, fixed rate loans	Design 1: traditional approach for page 2 Design 2: graphic approach for page 2
Round 5: Albuquerque, NM	October 17-19, 2011	One 5/1 ARM One 3/3 ARM One 30 year, fixed rate loan One 5 year, interest only loan	Design: itemized closing details

CLOSING DISCLOSURE ³²			
Location	Date	Type of Loans	Features
Round 6: Des Moines, IA	November 8-10, 2011	One 30 year, fixed rate loan One 5/1 ARM (SD only)	Design 1: HUD-1 style numbering for closing details, paid outside of closing with one column, two columns for TILA disclosures Design 2: HUD-1 style numbering, paid outside of closing with 4 columns, three columns for TILA disclosures
Round 7: Birmingham, AL	December 13-15, 2011	30 year, fixed rate loan (SD only)	Design 1: HUD-1 style numbering for closing details Design 2: closing cost details formatted with same organization as LE with Calculating Cash to Close table and no line numbers
Round 8: Philadelphia, PA	January 24-26, 2012	30 year, fixed rate loan (LE + SD)	Both designs use Closing Cost format similar to LE. Design 1: uses line numbers Design 2: has no line numbers
Round 9: Austin, TX	February 20-23, 2012	One 5 year interest only, 5/3 ARM (LE + SD)	Design: uses Closing Cost format similar to LE and uses line numbers
Round 10: Baltimore, MD	March 26, 2012	One 5 year interest only, 5/3 ARM (LE + CD)	Design: uses same design as Round 9 with changes to escrow and some titles

Research Limitations

All research studies have limitations. This study was crafted with a key goal in mind which was to formatively develop and usability test the Loan Estimate and Closing Disclosure and to ensure comprehension, comparison, and choice. Within the narrow confines of this scope, and given the CFPB's unique mandate of integrating the current TIL, GFE, and HUD-1 disclosures while also including new information, certain types of research were not possible.

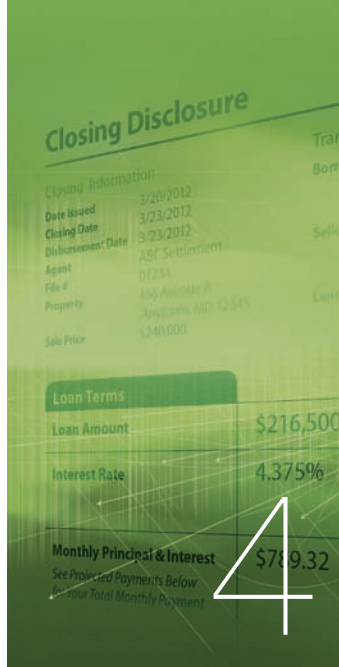
Baseline testing. Typically, a baseline comparison looks at X against Y with Y being a different presentation of X. Defining the performance of existing disclosures for comparison against newly developed disclosures would be a valuable step. However, in this case, no parallel disclosures

³² In Round 10, we settled on the name, Closing Disclosure. Settlement Disclosure (SD) was the working title of this disclosure for Rounds 6 (Iowa), 7 (Alabama), 8 (Pennsylvania), and 9 (Texas), and we use Settlement Disclosure in our reporting and discussion of these results. For Round 10 (Maryland 2) and other discussions, we use the name, Closing Disclosure.

exist. The Dodd-Frank Act requires the merging of the RESPA and TILA disclosures and, at the same time, adds new disclosures. The Loan Estimate and the Closing Disclosure represent “new” requirements, a new law, and new goals. As a result, the current disclosures would not satisfy the new law, and there is no such baseline to compare to the integrated disclosures. The information in these two new disclosures is not the same information in a different format, but different information in a new format. Thus, such testing was not appropriate at this point in the project.

Qualitative research. Qualitative testing is not statistically based. In fact, the sample for qualitative testing is relatively small. The results are not generalizable to a larger population, but they are not meant to be. This study was about developing two disclosures. In the iterative design process, it was more important to obtain fewer in-depth responses than a larger set of surface responses. These in-depth responses guided changes to the disclosures. As long as participants continued to comment on or could not perform with a part of the disclosures, the design continued to evolve.

Validation study. A user-centered design project often includes a validation study as its fourth phase. These studies are quantitative in nature, use large samples, and aim for statistically significant results. Because our project took place before the notice and comment period for the disclosures, no quantitative validation study was conducted. The CFPB may undertake such a study after the notice and comment period.



Formative Development Results

Overview

From February 2011 to April 2011, we experimented with over 100 variations for page 1 of the Loan Estimate. These variations used different layouts, grids, page arrangements, ordering of items, headings, fonts, icons, and presentations of items, including graphs, charts, and tables. We looked at designs similar to the current FDA Nutrition Facts Label, four-square designs, table designs, and column designs. We developed designs that had many words and some that used very few.

Figure 4. Design Variations, February - April 2011



Some iterations focused on the fundamental structure of the design—its visual appearance or its underlying structure. Others focused on nuanced differences—bold or italic, checkboxes or filled in circles. As we worked through the designs, we considered the overall structure of the design: how were we grouping information? Was the grouping logical? Could a consumer see the logic of that grouping? Did the structure allow for internal consistency? And always we considered whether we had the right information for the consumer.

Importantly, we did not decide on design alone or only with the team. We used team-developed personas as an initial reality check on any design element. As we focused more on certain designs, we used rapid prototyping to obtain quick feedback on designs or design details from a few consumer volunteers. Design includes an overall look and feel, but it is supplemented with many specific design decisions about phrasing, placement, and other nuanced details. This rapid prototyping allowed us to avoid team discussions of personal preferences and to defer these decisions to the consumer, thus keeping the design user-centered.

Persona Results

The team-developed personas provided a check for design elements. They also helped to frame some of our considerations and thus served to generate other design elements for the disclosure.

Life circumstances. Personas represented various life circumstances. Some were young individuals buying for the first time who would presumably sell in a shorter period of time. Some were older individuals who were planning to refinance an existing home. This range of circumstances helped us test whether the disclosure would work for different types of consumers at different times in their lives. Additionally, we paid particular attention to showing the impact of the loan both now and in the future.

- **Design impact:** Because some consumers may have difficulty identifying or evaluating how the costs of the loan transaction occur over time, we wanted to emphasize both the costs at closing and the costs over the loan term. For example, consumers focused on immediate needs may miss long-term impact. We explored different designs that showed change in different ways (such as a now/future design, graphs that showed change over time, an *In 5 Years* section, and projected payments). We discarded designs that were either too static (did not show change well enough) or were too dynamic (showed so much change that it was difficult to parse out what was happening over time).

One of the final options for Round 1 testing used a model that demonstrated change in key loan terms with a cautionary question, “Can this change? Yes/No.” This model provided an easy-to-follow, tabular format that highlighted key information. Additionally the use of a question with Yes/No answers addresses implicit questions that users might have as they first encounter the disclosure.

Age and ability. Personas represented different ages. For example, older populations can have more difficulty seeing information and, thus, using it to make decisions. Populations with disabilities can also have trouble with documents that use small fonts and/or colors.

- **Design impact:** All design decisions accommodated older populations and those with disabilities. We selected easy-to-read typefaces and a point size that those with vision problems could effectively use. We limited the use of “fine print” in the disclosure. Additionally, we used larger-sized headings and blocks of reverse-text to draw emphasis to key areas of the disclosure. We closely matched language or word choice and its placement to reduce unnecessary complexity.

Quantitative literacy. Many of the concepts underlying the disclosure require some basic quantitative literacy (*i.e.*, identifying and performing calculations, either alone or sequentially, using numbers embedded in printed materials). For example, interest rates require moderate mathematical and financial literacy.

- **Design impact:** Many decisions during the disclosure development came back to the issue of quantitative literacy. We decided to clearly delineate key loan elements to better highlight the “important” aspects of the disclosure (loan amount, interest rate, etc.). We augmented numbers that could change with prose that discussed the impact – “can go as high as X.” We also demonstrated change over time in a graphic format to increase comprehension in lower literacy populations.

Payments. Personas demonstrated that some individuals might not cognitively understand different types of payments. For example some payments are one-time payments at closing while others are costs paid for the life of the loan.

- **Design impact:** We paid particular attention to how we displayed loan costs. We did not bundle costs together, and we attempted to show which were one-time and which were long-term. In addition, we showed which could change over time through *Projected Payments* and with notations in *Loan Terms*. In areas with aggregated costs, we used plus signs to show which numbers were being added together to get a sum total.

Visuals. Graphs can be particularly difficult for many populations, especially those of low quantitative literacy, because a graph integrates multiple concepts within one representation.

- **Design impact:** We experimented with many types of graphing options – including line charts, bar charts, charts with icons, and linear “arrow” tables. We iteratively tested these against personas as a first check of whether they might work for different populations. When the results were unclear, we tested again in rapid prototyping.

Rapid Prototyping Results

Through March and April, the designs went through many variations as we worked toward the initial usability test. The design, test, design, test cycle of Rapid Prototyping allowed us to narrow the hundreds of options to only two designs for the usability testing. Within the team, as one would expect, some designs or design elements generated strong preferences, but this testing allowed consumers to remain at the center. In the following, we highlight some of the major decisions we reached.

March prototypes

In early March, we began informally showing design variations to five volunteers who agreed to briefly review materials. These early versions included multiple versions of a graph designed to provide a “snapshot” of the loan in its entirety. The graph included a visual version of projected payments over the course of the loan (when they would change, how high they would go, how low they would go, and where balloon payments occurred). Each individual we informally polled reacted negatively to the graphs, stating that they were too difficult to understand and too visually complicated. Some felt that the graphs had so many variables that they were almost incomprehensible. These consumers could not use the graphs to make decisions or to identify specific aspects of the loan changes that the graph was intended to convey.

- **Design impact:** After many attempts to rethink and fine-tune this design, we ultimately abandoned the complex graphing option. However, the thinking around the graph provided the genesis for the current *Projected Payments* timeline included in Round 1 testing.

By the end of March, we had several strong design options, but still too many for Round 1 testing. To help narrow the designs, we informally showed our volunteers the remaining design options. These options included three types of display: a yes/no checkbox version, a quadrant version, and the “nutrition label” version. Consumers overwhelmingly reacted positively to the yes/no checkbox version noting that it “looked easy” and gave them a sense of confidence that they could use it. This yes/no checkbox version continued to evolve into Design 1 for Round 1. Consumers also reacted positively to the “nutrition label” version. They immediately noted the similarity to the nutrition label, indicating that the format is connected to a strong cognitive map. This “nutrition label” design continued to evolve into Design 2. Consumers struggled with the quadrant version – they did not understand why there were four boxes and tried to derive meaning (unsuccessfully) from them. Consumers found it difficult to know where to focus within the quadrants as well. One element of the quadrant version that individuals liked was the “good to know” points.

- **Design impact:** The quadrant version was eventually discarded.

Near the end of March, we again asked our same five volunteers to comment on certain design elements. One element was a line graph that displayed estimated monthly costs. After seeing various versions of this graph, they still could not use the display to see change over time and to compare loans. We developed an alternate bar chart to try to improve performance. We also included identifications of the payment based on the “fully-indexed rate.” However, they still could not use this chart to distinguish what was changing in the payments. At least two of our volunteers did not know what “indexed” meant.

- **Design impact:** We removed the estimated monthly cost section of the disclosure and focused designing the *Projected Payments* timeline.

Another element that our volunteers responded to was the *Purchase details* section. They liked the down payment but were unsure how this related to estimated closing costs. They did not understand how the details worked together.

- **Design impact:** We removed the *Purchase details* section because it raised more questions than it answered. However, the cash that consumers needed to bring to closing continued to be a concern. Information on the front page of the disclosure (such as estimated closing costs) would need to clearly match the detailed information on the second page.

A final graphic element that we considered was a Now / Future version of the loan details section. Our volunteers did not respond positively to the Now / Future section because they could not tell what “future” meant. They questioned whether future was six months, five years, twenty years, etc.

- **Design impact:** We did not pursue the Now / Future version.

April prototypes

At this point, we had narrowed down the primary designs based on volunteer feedback and the team’s feedback. However, we still needed to make choices about specific wording and graphic options.

One element that needed particular work was the question, “What can change?” We showed this element to our five volunteers. They immediately identified taxes and insurance as an issue. They thought that taxes and insurance could change but that the disclosure implied that they would not change. The question itself: “What can change?” also created problems because the items listed within the section could change at different times. Closing costs, for example, could change before the closing; other items could change at some point after closing.

- **Design impact:** In response to informal comments regarding “What can change?”, we added the word “estimated” and tried through the graphs to show variations. We removed closing costs from the section and refined the question to “What can change after closing?”

Another concern was the *In 5 Years* element. One individual questioned why 5 years was chosen and that it seemed “arbitrary” and “short term” – especially since the loan term was 30 years. Another thought that 5 years was selected because something specific would happen in 5 years. Because he didn’t know what the something specific was, he was anxious.

- **Design impact:** Although *In 5 Years* created some difficulty for the individuals we informally polled, after discussion within the team, we kept this section in the disclosure to test it more fully with consumers in Round 1 testing.

May prototypes

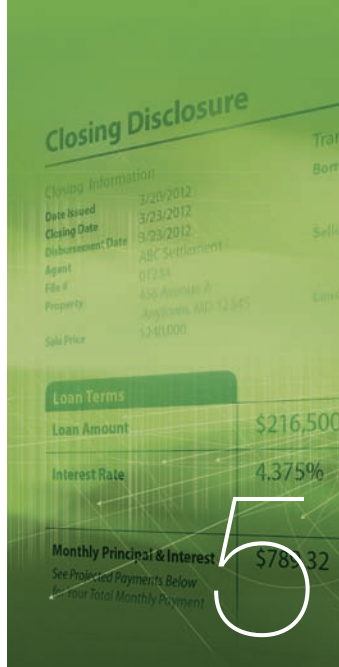
With testing scheduled to begin in mid-May, we selected two designs for usability testing in Round 1. The first was the table with checkboxes and two-column format and the second was the design with highly visible black tabs and a single column format.

SECTION 2. ITERATIVE TESTING OF THE LOAN ESTIMATE

In Rounds 1-5, the Mortgage Disclosure Project team focused on developing the Loan Estimate disclosure. As part of the qualitative testing, we varied the type of loan to ensure that the disclosure could accurately handle the varied detail of different types of loans. We also included nuanced differences in the loan terms to ensure that consumers could make trade-offs between the differences in loan terms and costs as they chose a loan and then could explain a rationale for their decision.

The testing changed its focus as we moved through each round. These changes were in response to new information to be included or to design issues that arose during the testing. As a result, a round of testing could be organized differently or have a different focus:

- For Round 1 (Maryland), we tested two alternate designs for the disclosure, focused primarily on page 1.
- For Round 2 (California), we shifted to how to present the closing cost detail of page 2, exploring both an itemized and a lump-sum approach.
- For Round 3 (Illinois), we continued to explore both an itemized and a lump-sum approach for the closing cost detail of page 2.
- For Round 4 (Massachusetts), we explored both a traditional approach and a highly graphic approach to page 2, but also focused on distinguishing the monthly loan payment and the total monthly payment.
- For Round 5 (New Mexico), we focused on fine-tuning the Escrow section. We also added a page 3 that contained the required disclosures from the Truth in Lending Act and the Dodd-Frank Act.



Usability Testing Round 1 – Baltimore, MD (May 2011)

Introduction

As we entered the Iterative Usability Testing phase of the project, we focused on the Loan Estimate and obtaining performance information about consumer participants' comprehension, comparison, choice, and their ability to make trade-offs when presented with different loan products.

Having worked through more than 100 design variations, the CFPB selected two designs for this round of testing, both of which used design to draw consumer participants' attention to key information. Design 1 used reversed black tabs with key headings on the left side of the page. Design 2 used shaded bars and a two-column layout. We wanted to know with which of these designs consumer participants would more easily identify key characteristics of the loans. We also wanted to see if one of the designs more readily helped consumer participants understand the trade-offs of selecting one loan over the other.

In addition, because the new disclosure would have to work with many different types of loans, we tested two loan types: a 30 year, fixed rate loan and a 30 year, 2/1 adjustable rate mortgage (ARM) loan. Because an overarching goal was to affect the ability of consumer participants to understand the trade-offs between similar and different loan products, we also introduced variations within the loans, such as a similar loan that had a lower interest rate, but also a balloon payment. These subtle variations enabled us to better understand the rationale of consumer participants' choices of loans.

Research Goals

The overarching goal of the testing was to determine if consumer participants could understand and weigh the different loan and cost terms, consider their personal circumstances, make a decision that balanced all of these factors, and articulate the logic behind their choice. Within that context, the specific research goal for Round 1 was to determine which of the two designs consumer participants could use more easily. In addition, we wanted to learn as much as possible about how well specific aspects of the design worked, such as the *Projected Payments* table, and to identify what elements would need additional work.

For this round of testing, we had one additional goal. We wanted to determine any structural issues in the designs that could cause differences in performance for speakers of a second language, specifically Spanish. To that end, certified translators translated all disclosures and testing materials into Spanish and experienced interviewers conducted testing interviews in Spanish with Spanish-speaking consumer participants.

Who We Tested

For Round 1 testing, we conducted 13 one-on-one interviews (each lasting 90 minutes) in Baltimore, Maryland:

- seven English-speaking consumer participants,
- four Spanish-speaking consumer participants, and
- two industry participants, both lenders

Consumer participants represented a range of demographics, such as age, education, income, and experience with mortgage loans. See *Appendix A. Demographic Summary*.

Interview Structure

We used highly structured one-on-one interviews. Consumer participants worked primarily with one of the two loan designs. Within that design, we gave consumer participants an initial Loan Estimate, had them do a think aloud, and then asked a series of comprehension questions regarding details about the information on the initial Loan Estimate. We then gave participants a second Loan Estimate for a similar loan type, but with slightly different terms, and asked them a series of comprehension questions. Then we provided a third Loan Estimate that was a different loan type, and asked a series of comprehension questions. Finally we gave them the second design and asked them to compare the two designs.

For industry participants, we used the same interview structure as for consumer participants with some additional questions about implementation.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw loan types and designs in a carefully considered rotation or order. Overall, consumer participants looked at four loans:

- one loan using Design 1 or 2 that was either an adjustable rate mortgage (ARM) loan or a fixed rate loan,
- a second loan of the same design,
- a third loan of the same design, but a different loan and the same type loan product, and
- a fourth loan of the other design that was the same type as the first loan.

For the English-speaking consumer participants, four consumer participants worked first with the 2/1 ARM, and three worked first with the 30 year, fixed rate. Four worked with Design 1 and three with Design 2.

For the Spanish-speaking consumer participants, four consumer participants began with the 2/1 ARM. Two consumer participants worked with Design 1, and two worked with Design 2.

For the industry participants, both worked with two ARMs because we wanted to assess how the designs worked with the more complicated products. Participant 1 used Design 1 and participant 2 used Design 2.

TABLE 3. Disclosure Rotations, Round 1

Participant	First Loan	Second Loan (within type of loan)	Third Loan (across type of loan)	Alternate Design
MD-001 MD-Spanish-001* MD-Lender 1-001	Ficus Bank Design 1	Fir Bank Design 1	Beech Bank Design 1	Pecan Bank Design 2
MD-002 MD-Spanish 2-008	Fir Bank Design 1	Ficus Bank Design 1	Balsam Bank Design 1	Poplar Bank Design 2
MD-003	Beech Bank Design 1	Balsam Bank Design 1	Ficus Bank Design 1	Laurel Bank Design 2
MD-004 MD-Spanish-009	Balsam Bank Design 1	Beech Bank Design 1	Fir Bank Design 1	Lilac Bank Design 2
MD-005 MD-Spanish 3-010	Pecan Bank Design 2	Poplar Bank Design 2	Laurel Bank Design 2	Ficus Bank Design 1
MD-006 MD-Spanish-011 MD-Lender-002	Poplar Bank Design 2	Pecan Bank Design 2	Lilac Bank Design 2	Fir Bank Design 1
MD-007	Laurel Bank Design 2	Lilac Bank Design 2	Pecan Bank Design 2	Beech Bank Design 1

*Spanish consumer participant 001 did not complete the interview.

What We Tested — Design

We tested two different designs for page 1. Design 1 used reversed black tabs with key headings on the left side of the page and a one-column layout. Design 2 used shaded bars and a two-column layout. Page 2 of both designs was identical except we matched the style of the particular design of page 1.

We kept the content consistent between the two designs to reduce variability. On page 1, both designs contained a summary of loan information and affordability information. On page 2, the information was also identical, showing closing cost details and information about escrow, mortgage insurance, servicing, and appraisal.

Loan Information included (1) Basic Loan Information, such as the loan ID number, the loan type, and the loan officer's name and contact information; (2) Loan Information, such as the loan amount, the monthly loan payments, the interest rate, and closing costs; and (3) *Cautions*, such as whether the interest rate could adjust, how high it could go, the presence of balloon or prepayment penalties.

Affordability Information included (1) *Projected Payments*, which showed how payments could vary across the term of the loan and the cash needed to close; and (2) *Comparisons*, including *APR* and *In 5 Years*, which showed the total amount paid and the amount of the loan paid off.

What We Tested — Loan Type

We tested two designs and four loan products in each design:

- two different 30 year, fixed rate loans and
- two different 2/1 ARM loans.

The total was eight disclosures. See Table 4. Loan Type, Round 1 for detailed differences across the loans.

TABLE 4. Loan Type, Round 1

Design 1 English and Spanish		Design 2 English and Spanish	
Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Balsam Bank	30 year Fixed rate @ 5.125% Closing Costs of \$4,167	Laurel Bank	30 year Fixed rate @ 5.125% Closing Costs of \$4,167
Beech Bank	30 year Fixed rate @ 5% Prepayment penalty Closing Costs of \$4,167	Lilac Bank	30 year Fixed rate @ 5% Prepayment penalty Closing Costs of \$4,167
Ficus Bank	30 year 2/1 ARM @ 2.5% As high as 10% in year 5 Closing Costs of \$10,060	Pecan Bank	30 year 2/1 ARM @ 2.5% As high as 10% in year 5 Closing Costs of \$10,060
Fir Bank	30 year 2/1 ARM @ 2.375% As high as 12% in year 6 Closing Costs of \$10,060	Poplar Bank	30 year 2/1 ARM @ 2.375% As high as 12% in year 6 Closing Costs of \$10,060

See Appendix B. Loan Estimates (English) for Round 1 – Baltimore, MD and Appendix C. Loan Estimates (Spanish) for Round 1 – Baltimore, MD for the disclosures that were tested in Round 1.

Overall Findings

Consumer participants could identify key loan terms

Consumer participants were able to use the disclosure to correctly identify monthly payments, interest rate changes, and payment changes.

“ So everything is pretty much clear cut on the amount of the loan, how much my payment would be, the taxes, my interest rate—very detailed to just let me know what I need to come to the table with and what my mortgage payment would be. I guess this is an ARM. (MD-006)

It looks like it [Laurel Bank] is saving you more money throughout the life of the mortgage. This number here—the \$1,186 that is what I know I am going to pay throughout the life of the mortgage unless I choose to pay it off. Closing costs are less so I have to bring less money to the table, even though \$5,000 of the closing is going to be rolled into the mortgage. Basically, the monthly payment is what I am looking at. (MD-005)

Consumer participants could identify loan risks and make trade-offs

Consumer participants were able to identify the risks associated with different loan types. They stated that an ARM is riskier because one cannot predict its behavior (i.e., whether the interest rate will adjust up or down, exactly how much, and when). They also identified that the ARMs had a lower initial monthly cost than the fixed rate loans, and considered that lower cost as a trade-off with the greater stability of the fixed rate loan.

“ Because of the adjustable rate factor, not knowing what the interest rate could go to even though it states that it could go potentially up to 12% but then not knowing part of it and same thing with the monthly payment. It could go as high as that so therefore not knowing when it would go from one figure to the other is risky to me. I guess the adjustable part versus it being fixed. (MD-002)

...loan type is 30 year adjustable rate. Now I heard that's bad, but it could be good. What I know about adjustable rate is that I know that in the beginning it's usually good and as time goes on it gets worse. As far as payments...can go as high as 10% in five years. That is risky. (MD-003)

I am seeing here, projected payments. Closing costs that you pay, \$10,060 and down payment \$24,000. Perhaps I would stay with this one if I were a buyer – with this one. This here is fixed, this is variable but...afterwards there are surprises...'Risk?' What does it mean? It's a risk because if you buy this, at the beginning they tell you, they give a treat and after they take it away. I made the comparison because they give you a lower interest at the beginning and after, when it increases, it goes up too much, an exaggerated payment. (MD-Spanish-011)

Consumer participants could use the disclosure to compare similar and different loan products

Consumer participants could identify fixed and ARM loans, based on the “Loan Type” identifier and from the bulleted text to the right of the “Yes” about the changes—specifically, the idea that “adjustable = things will change.” Consumer participants picked up slight differences between two of the same kind of loan, acknowledged that those differences were slight, and still made decisions based on the differences (such as choosing an interest rate that could only go up 10% instead of 12%).

“ I would probably go with the second loan [Pecan vs. Poplar] just because the amount is cheaper, and the ARM can go only as...well, it says as high as 10%, so 10 versus 12—2% difference. (MD-006)

I haven't finished looking at the whole thing. Adjustable interest rates. Here, it is, 2. The payments, which here are at 12% and here they are at 10%. So, they are much better. (MD-Spanish-009)

Consumer participants could choose a loan product, make trade-offs, and express a reasonable rationale for choices

Consumer participant rationales for their loan choices often considered their personal situations, including what they would be able to afford, stability of the type of mortgage (ARM vs. fixed rate), and the length of time they planned to stay in the house.

“The first thing I look at is the interest; that it is not very high. If I buy a house I look at a house at my possibilities of being able to pay for it, to avoid seizure or loss...The monthly payment, if I earn \$35,000, the monthly payment is too high for me. \$1,203 dollars...Now it says the features of the loan can cause higher or additional expenses. Higher, I wouldn't be able to because my yearly income is \$35,000. So, how I am going to pay an amount of \$1,000+ per month if I have to pay the utilities, water, and other repair expenses that appear as surprises? (MD-Spanish-011)

Because for a consumer it will be more appropriate that the rates were fixed without changing. Because at the moment of taking a house you make a budget and it says how much I can pay, for example what I can pay is \$1,000. Because it's what I could pay for an apartment with all utilities included. So, if at the time of taking a house they make some projections and they say that you are going to be paying this for six years, that increases, so at some point you cannot keep paying. When you have a salary, in general, the salaries in many companies are fixed, there are no increases. (MD-Spanish-008)

I looked at...the biggest deciding factor for me is what are my payments going to be overall and long term? We can get into the house but can we stay in it? Which one is going to allow us the opportunity to stay in it, so far neither one of them? So projected payments and closing costs, projected payments are always the biggest thing. (MD-005)

I'd probably just choose a fixed rate mortgage simply because I would not want the ARM, the mortgage rate to increase, and even though I'm paying more for a monthly payment, my payment will never change—it's fixed. And I'm bringing less money for closing costs, almost a thousand less. (MD-006)

I'm thinking about the estimated costs over time. I'm thinking about if you find a home you don't want to leave it in the first three years or sell it. You might want to refinance it though but not at a penalty of \$4,420. (MD-004)

Consumer participants used page 2 to understand more about the loan

Consumer participants used page 2 of the disclosure to answer basic, specific questions. They wanted to know which services they could or could not shop for and asked questions about the information that appeared below the table on escrow, mortgage insurance, payments, appraisal, and dates. Some consumer participants noticed and used the “A + B + C + D + E” labeling on line F to determine what the closing costs comprised.

“ It tells you what they are talking about. Line F, it says everything that is covered in closing is your A, B, C, D and E. This is what I end up paying. This is why I am paying this. I am paying for all of this. You know what you are paying for. (MD-001)

I got to go back and where it says estimated closing costs A, B, C, D, E. Yeah, that’s pretty much it. Do you want to add in, I guess F, G, H, I is...H is, yeah, H is part of it too. (MD-003)

The total costs at closing are all the A, B, C, D, and E, which is a total of \$10,060. The lender credits to the seller, total closing costs, estimated amount to pay at closing is F, G, and H. (MD-Spanish-008)

[Closing costs include] fees for mandatory services that you cannot purchase, mandatory services that you can purchase and hire, and if you choose another provider, these amounts can change, also non-mandatory services, you choose to hire these services, charges that you make in advance at closing, so all these options...From all the information, from A to I. (MD-Spanish-010)

Most consumer participants could identify when some closing costs were financed and understood what financing meant.

“ ...just trying to see where the money is saved here so looks like \$5,000 of the closing costs will be financed that is where the savings is. Pretty much the same but \$5,000 that must be where the loan amount is coming into play, I can live with that. (MD-005)

I am looking at line H. It says total amount financed at closing so they are going to help me. If somebody is going to...somebody is going to help me. Once again, I am still not mad at them. They have financed \$5,000 of it instead of making me bleed a little bit more. I am at line I. The estimated costs I will be paying at closing is \$4,167 as opposed \$10,060. (MD-001)

It’s going to be part of the loan. Even though it doesn’t really come out and say it’s going to be part of the loan anywhere here, but I know it is. (MD-003)

Consumer participants had questions on specific aspects of page 2

Many consumer participants were unfamiliar with or unsure about the definition of specific technical terms, including origination charge, government charges, mortgage insurance (and the various kinds of insurance listed), and escrow.

“ *Is mortgage insurance the same as homeowners insurance? That is my question. (MD-001)*

I would like...more details as to what the mortgage insurance covers and its function. You hear the term, but you may not necessarily know what its purpose, what its design is. (MD-002)

Government charges \$2,000. What's the government charge? I'm not really sure what that [origination fee] means...What is origination fee? (MD-003)

Origination fee \$1,000. Who gets the origination fee? (MD-007)

I don't know what the term "appraisal" means...it does not give the concept about what is an appraisal, only it says that they are going to give you a copy. But the concept of what an appraisal is, it does not say. (MD-Spanish-008)

Specific Findings

Key Loan Terms

Consumer participants used the *Key Loan Terms* and *Summary* sections. In Design 1, consumer participants read the key terms and the “yes/no” button, but did not initially read across. Consumer participants did return to the button text and used that text to identify the loan variations. In Design 1, consumer participants wanted the monthly loan payment and the taxes and insurance to be added. Spanish-speaking consumer participants were more confused by the monthly payment amount in *Key Loan Terms* when they compared it to the amount in *Projected Payments*. In Design 2, the *Summary* served a similar purpose as *Key Loan Terms*, but consumer participants didn't seem to link these items to the *Cautions* section.

“ *[in Design 1] I was looking down here at the projected payments of the first Years 1 through 9 and I just did the quick math and it's these two numbers. Monthly loan payment plus monthly taxes and insurance equal this payment here. (MD-003)*

[in Design 2] Actually, it's not much cheaper. I'm looking at the first part, I'm sorry. Actually, it's more because it's fixed...I was just looking at the monthly payment; I wasn't adding in the estimated taxes and insurance. (MD-006)

[in Design 2] I was assuming the tax and insurance were rolled into this figure the top number, and I am incorrect. So here Years 1 through 9 total is \$1,647 a month and it actually goes down to \$1,479 ...You just want a total of \$1,280 then it could go up to over \$2,000 and this one is even more so. (MD-005)

Industry participants wanted a clearer breakdown of the taxes and insurance, but also wanted to have a total monthly payment including taxes and insurance.

“ The one thing about this I do not like, it does not break down the taxes in the insurance part of it...It lumps it together and that could be problematic for a consumer because it doesn't give them a clear idea of the taxes and insurance. Taxes and insurance are two important items because those are the two things that regardless of whether it's a fixed rate or an adjustable rate, the taxes and the insurance are the two things that can also change, so it's important to show them each item broken down that can change for them. (MD-Lender-001)

The monthly loan payment...it shows the principal and interest and then it shows the taxes and insurance. I would like to see a total. (MD-Lender-002)

Cautions

Consumer participants used the *Cautions* section appropriately. Many consumer participants agreed that the word “*Cautions*” drew their attention to the elements included.

“ I think “cautions” is the right word to use...I think “caution” is actually the best word to use there for those things. (MD-003)

I guess that could be perceived by lenders who are going to push an ARM product as a negative but I think that they are cautions so I think they are labeling it correctly. (MD-004)

[“Cautions”] is indication to things that could change the amount of money that you pay...“Caution” is good. (MD-008)

Yes, I think that it is the right word because warning indicates something you have to be cautious about. (MD-Spanish-008)

Because they're letting you know in advance, all the different possibilities of what can happen. Changes in interest rates, increases in the loan amount, it says no, which means that it won't...information...a warning, it is something that you are being told in advance, you know, like before signing a contract. (MD-Spanish-010)

Industry participants believed the caution information was appropriate, but were not sure that consumers would know what each of the items were. They also suggested including the adjustable cap and interest rate information in the *Cautions* section.

“ In the industry, do I think these are caution items? Absolutely. Does this explain why it's cautionary? Does it explain to a client that has never seen these things before why it's cautionary? Not at all...Down here at the bottom I would give an explanation of what each one of these things are. (MD-Lender-001)

Well here is cap and interest rate information on the back side. I think that this block should be incorporated under these cautions. (MD-Lender-002)

Most consumer participants understood prepayment penalty, partially because the name explains what it is. Most consumer participants had heard of balloon payments before and had a general idea about what they were. However, Spanish-speaking consumer participants had difficulty with this concept, which was partially attributed to the translation. This item also had no textual content, because the loans tested did not have balloon payments, which eliminated context to help the Spanish-speaking participants determine meaning.

Projected Payments

Consumer participants used the *Projected Payments* section to identify key information and could identify when a payment was changing.

“From there, I don't have much mathematical knowledge but if here it is saying that your monthly payment is this and I go to the scale at the bottom where says the projected payments, as to say future payment, that I can have. They are telling me that from one year to two years is going to be this, and from the third to the eighth is going to be this and at the final years is going to be this. So, I think that is increasing and increasing. (MD-Spanish-008)

According to this document, there will be a change in the first two years, then from Years 3 to 8, and then from Years 9 through 30 years. (MD-Spanish-010)

Although consumer participants could identify payment changes over time, they did not always understand the reason for the change. Some noticed that the taxes and insurance were reduced, but did not know why.

“The taxes and insurance decrease in Years 10 through 30 so it brings the mortgage down; why it decreases I do not know. (MD-005)

I don't understand why from the Year 1 to the Year 8 it still is \$451, taxes and insurance, but since the 9th year until the end of the loan it says \$341, there is a decrease of \$210. (MD-Spanish-008)

It says here projected payments Years 1 through 9, it would kind of stay the same, and then when you got up to 10 through 30, then the estimated taxes and insurance would decrease. [I don't know why.] Actually that would be another question I'd ask. (MD-007)

One of the industry participants also felt that the disclosures did not capture the “why” of the payment change and that consumers might have questions about it.

“They would know that they're different. It's not a question of knowing they're different. It's a question of knowing why there are differences. They're clearly going to be able to, they can go through each section and see the differences, but the other part is understanding why there are differences. (MD-Lender-001)

What it maybe doesn't clearly show is why is there a difference in the payment and maybe somehow needs to have an indication that you are going through phases or tiers of mortgage insurance... (MD-Lender-002)

Some consumer participants preferred the placement of *Projected Payments* at the top of the page.

“ I'm looking at the projected payments. I think I would prefer the projected payments to either go under *Key Loan Terms* or as a first heading above *Key Loan Terms*. It kind of jumps from telling you what your monthly loan payment can be and how it can go as high as such and such, but then you also have the projected payments broken down by year. So either make this the first heading and then go to *Key Loan Terms*, or *Key Loan Terms* and then have this as a second heading—*Projected Payments*... (MD-006)

I am having an easier time understanding the projected payments here because it is right up top. It tells you what that figure includes as opposed to being a small number right there then you are adding it. I just look at that number without even paying attention to that says plus this, so it is more of a bottom-line type deal here then it gives you an explanation as to how they got to it. (MD-005)

Comparisons

Consumer participants could use the *Comparisons* section, but they tended to be confused by both the *In 5 Years* and *APR* information until they were asked to compare loans.

In 5 Years

Many consumer participants did not initially understand the *In 5 Years* section, and some thought it was the pay-off amount of the loan or misunderstood the relationship of the *In 5 Years* to the monthly loan payment.

“ When the loan is paid off in 5 years, after paying \$86,460. (MD-Spanish-011)

According to what this document tells me, it is what I have paid as far as interest because it cannot be principal; otherwise, the payment amount [of the monthly loan payment] would go down after the nine years... (MD-Spanish-010)

Consumer participants who could correctly explain the meaning were not confident in their answers.

“ In five years this much money is the loan amount you have paid off in five years. That's a little confusing to me. Yeah, this \$17,000 figure, is that the amount that I've paid off or the amount of interest versus the \$82,000. So I'm not real clear. (MD-002)

It says here in five years, it says here, the \$81,263 is the amount that I paid. \$18,059 is the amount that is paid towards the loan. That's the way I understand it... (MD-006)

Consumer participants who did understand the information thought it was useful to provide.

“ Because you need to know where you are, where you stand at this point, how much have I actually paid toward the principal. (MD-007)

In five years here, I actually have \$19,000 paid towards the loan. In this one right here, I only had \$17,000 paid towards the loan. Everything on this one is...not everything...monthly payments wasn't as high but it could go as high as \$2,000. This one [Fir] is much more risky to me than the initial one [Ficus]. (MD-001)

It tells me that the bank has made \$79,000. It is telling me that I have paid \$79,993 in five years. Out of that, only \$19,761 has gone to the loan payment of \$216,000. (MD-001)

Industry participants thought the *In 5 Years* section was information consumers would find confusing, would not be interested in, or would not need to know.

“ ...maybe this part [In 5 Years] can be broken down into three little small parts that show them how much they have to pay extra each year to pay the loan. Five years is really not important, but to show a client how to pay a loan off faster is, maybe in this section here you can put, if you want to pay your 30 year loan off in 15 years, pay this much extra a year. If you want to pay it off in 20 years, pay this much extra. If you want to pay it off in 25 years, pay this much extra. That's what they're really worried about, more concerned with. They don't care what they have to pay it off in five years. They want to know now they could pay it off sooner. I think that would be more effective than the five years part. (MD-Lender-001)

[Comparison is useful] only if it is used so that when I see comparisons it looks like I am offering a three year adjustable so the usefulness would be only if I am going to show them the benefits of a fixed rate to a five year product, but then I am going to need to also represent the costs on the back side as well as the other information here. And I don't think you are going to be able to get that on one form. So I don't find the comparison that useful. (MD-Lender-002)

Annual Percentage Rate (APR)

Most consumer participants were confused by the APR and could not explain the difference between the APR and interest rate.

“ This is a rate per year [APR] and the other is rate per month, monthly interest. (MD-Spanish-008)

I am reading down here the comparisons. I am trying to figure out where this 5.59 [APR] comes from because I thought the interest rate was 2.5. I would probably ask the loan officer about that. I would say how come it is 2.5 up here and 5.9 down there. (MD-001)

I'm looking at annual percentage rate of 5.89%. Express interest of course over 30 years... who's giving this different interest rate out? Is it just a comparison that they put to make

the interest rate more attractive? The comparison...I want to know where they got this comparison from, what company did this come from? (MD-004)

Industry participants thought the APR was a useful tool for comparing loans, but that APR was a commonly difficult concept for consumers and offered a few suggestions for clarifying it on the disclosure.

“ Annual percentage rate is a very, very hard concept for the average person to understand because...they're seeing two different things [interest rate and APR]...I think one thing that we could do to clarify APR maybe is to have a little asterisk section to explain what APR actually is. That it is not what your interest rate is; it's basically a cost analysis of what this loan is going to cost you in full over the life time of the loan. (MD-Lender-001)

I would like the interest rate to immediately pop out at me. That is something I am looking for. I find my clients are less geared towards an APR. They don't fully understand that concept. They want to know what the interest rate is...I like explaining the APR as part of my job and using it as a comparison tool. (MD-Lender-002)

Design Findings

Both Design 1 and Design 2 performed well with consumer participants

Using either Design 1 or Design 2, most consumer participants performed very similarly on many performance-related tasks. Consumer participants had minor differences in performance about closing costs and the *In 5 Years* section, depending upon the design they used.

Design 1

- Overall, consumer participants were able to identify the estimated closing costs. Consumer participants saw the estimated closing costs more easily in Design 1.
- When asked the meaning of the two numbers in the *In 5 Years* section, consumer participant performance was slightly better on Design 1.

Design 2

- For Design 2, consumer participants were slightly better at recognizing that closing costs can change because the word “estimated” came immediately after the dollar amount in *Projected Payments*.
- Overall, most consumer participants were not sure if the down payment would be included in the amount they need to bring to closing. Performance was slightly better on this question with Design 2.
- Most consumer participants could identify the items they could shop for on page 2. Performance was slightly better on this question with Design 2.

Consumer participants preferred Design 1

Overall, English-speaking and Spanish-speaking consumer participants, and the lender and broker industry participants preferred Design 1 (62%) to Design 2 (38%).

TABLE 5. Design Preferences, Round 1

	Design 1	Design 2
English	3	4
Spanish	3	1
Lender/Broker	2	0
Percentage of Total	62%	38%

Overall, more consumer participants preferred Design 1. Consumer participants liked the linear, top down movement of Design 1. They liked the black tabs, but some thought that the tabs were too dark or that the contrast was too high. Consumer participants also liked the “yes/no” buttons, but read only portions of the text to the right of the buttons, specifically the bolded numbers. Consumer participants noticed the monthly payment included taxes and insurance better in the *Projected Payments* section, possibly due to the larger font.

“ I like the way everything is...All the information is up front. You don't have to search for it...I don't have to look around and try to figure out my interest rate, monthly loan, monthly taxes, which is good. (MD-004)

It still provides all the information you need, It's detailed. It covers the general questions that someone would ask probably on the phone, or if you wanted a quick snapshot of everything, it gives you what you need. (MD-006)

It [Design 1 (Ficus)] is just a simpler reading; maybe I am the kind of person that can understand things better when they kind of come down a page as opposed to when in categories across like this first one [Pecan]. I do not know if there is a statistic for – if people can understand things more up and down as opposed to left to right. I am not sure, but I think just for my taste, the up to down is better. (MD-005)

The first thing, the arrows, the highlights...that it has here...but the format is something that calls your attention, that directs your eyes towards the points that you'd want to read...The arrows also take you to the parts where you have to focus on. (MD-Spanish-010)

Industry participants preferred Design 1. They felt the order of the information more naturally followed their typical lending processes and that consumers would understand the disclosures better.

“ The key loan terms, that’s the important part. You want to grab their attention first. In an ADD society, which is what we live in, you want to grab their attention first. You don’t want their attention going towards the closing cost and that kind of thing first. This part, once they close, is gone...Because honestly, when you go through the mortgage application, aside from the payments and everything else, we cover the key loan type, the loan type and the key terms first. It follows the same basic theme of the whole entire process. It follows the same theme as the application. The way that I arrange my disclosures is to cover that same exact way. (MD-Lender-001)

For Design 1, though, I like the break-out where it says “key loan terms.” So if I’m an applicant my eyes are going to go right there to check interest rate, payment. (MD-Lender-002)

Some consumer participants preferred Design 2

Some consumer participants also liked Design 2. Consumer participants commented on the “calmness” of the look. Many consumer participants liked the table as one of the first things they saw. Consumer participants sometimes didn’t notice the total monthly costs. Consumer participants saw the *Cautions* section quite easily, but didn’t seem to make the connection back to the *Summary* details. Some consumer participants found the two-column design hard to follow.

“ It [Design 2] looks a little bit cleaner. There’s not as much wording everywhere. There’s not as much information. It looks like there’s less information on here. You get right to the highlights—the important terms that are on the loan estimate. (MD-003)

Because everything is pretty much cut and dry [Design 2]. I do not think anything is perfect, I do not think I am of above average intelligence. I am pretty average and I feel like I can understand this. (MD-005)

Boy, it looks like this one is more professionally done. [Design 2] It looks like a newer form... It seems to be a lot easier to read even though they’re pretty much the same up top. (MD-004)

This right here [Design 2] is simple and easy. If I am using analogies of income tax, this is your 1040 version as opposed to your long form. Easy...The font is much larger. I really could take my glasses off and look at this one. This reminds me of a tax form. This is a small graph; it is not as large as this one. It doesn’t appear to be doing the same thing. This looks user-friendly. (MD-001)

Industry participants thought Design 2 drew attention to the wrong things (such as seeing closing costs first). They also did not like the numbers bolded; they thought it focused consumer attention too much on those areas and clashed with the overall design.

“ I like the fact that they [the numbers in Design 1] are not bolded because, this is important but it’s not the only important thing, the most important thing. Just as

important as the numbers are, of course, the fact that these can change. What you don't want to do is you don't want to have a consumer focus solely on these [bolded] bullet points and neglect the other key things as well. (MD-Lender-001)

Spanish Vocabulary

Any slight variations in performance across English-speaking and Spanish-speaking consumer participants were the result of translation issues or words that were not readily understood by this population of Spanish-speaking consumer participants.

Spanish-speaking consumer participants were unclear on the meaning of the certain terms—either because they did not know the term or because the term was not used in their dialect. These terms included: “tasación” (appraisal), “pago global” (balloon payment), “multa por pago anticipado” (prepayment penalty), “dorso” (on back), and “cuenta de deposito en garantía” (escrow).

Industry Findings

Industry participants identified three possible barriers to implementation

The industry participants identified three possible barriers to implementation.

Barrier 1: “Cramming” two disclosures into one and losing some important detail

“ I think it would be difficult to implement because once again with both those things on the same page, you're cramming two very important documents into one page. It will be difficult to implement. It would be faster to go through, but to be honest with you, the process itself it would be tougher because it would not stick...There are a lot of lenders that will probably prefer this form because it's faster. By it being faster, these, as you go through, does that mean that the client is going to get what they need out of it? I don't think so. (MD-Lender-001)

Barrier 2: Becoming accustomed to using the new disclosure and the time required to learn it

“ I am used to looking at for years in a long form version, so maybe just a different layout of the form I think might be easier to follow. But this clearly has all the information on it and I think that once I got used to this, in a matter of a week or so, it would be easy for you to sit and explain this to a client. There is nothing wrong with the backside of this form. (MD-Lender-002)

Barrier 3: Adapting existing software (and including vendors in the development process to make sure there is a way to integrate the new disclosure)

“ I would recommend that all [software] vendors out there be brought into the picture to make sure that they can be able to take all the specific charges and find a way to funnel them into this. (MD-Lender-002)

Industry participants suggested changes to page 2 for greater transparency

Industry participants wanted more itemization to force greater transparency and make it easier for consumers to compare, including greater elaboration of the origination fee.

“ To be honest, that’s another thing that I think should, well, if it were possible to be added on, if there was a way to explain to a client what origination fees really are... One suggestion can be a separate page that may detail that. Second page may be a certification page that the originator signs to verify they did explain the two different scenarios to the consumer. (MD-Lender-001)

The new one [GFE], which is what this one represents, it lumps the title services, the title insurance and everything all together as opposed to breaking it down specifically by line... That would be a huge suggestion to break down the title service fees, title insurance fees and, of course, the closing agent fees. (MD-Lender-001)

The industry participants wanted room to fill in additional detail as necessary, e.g., some states have state-specific government charges that would need to be added to the disclosure. They thought that more dates would be needed, such as a lock-in date. They wanted a signature line.

“ I assume there would be ability to fill in or add more for other items because there is always something popping up. (MD-Lender-002)

I assume that it is going to pull in and summarize a lot of the specific government charges for each locale...I guess I could get used to this form and then just explain this total charge of \$2,015 under government charges. Or the breakdown of escrow and property taxes, how many months are in there. Those are the things that we’re used to putting in and explaining as to why you have that particular number. (MD-Lender-002)

Conclusion

After the first round of testing, the Loan Estimate met our overarching goal of consumer comprehension, comparison, and choice. Consumer participants could clearly identify the basic information about the loan. They could find the loan amount, the monthly payment, the interest rate, and the closing costs. More importantly, they were able to compare more than one disclosure to make relatively sophisticated trade-offs across loan characteristics. For example, they could state the trade-offs between two adjustable rate loans with slightly lower initial payments and differences in how high the payment could go. They could state that a prepayment penalty was not an issue for them because they would stay in the house for more than the period the prepayment penalty was in force (three years). To that extent, our overarching goal was met.

A second goal was to decide which of the two designs we should move forward with. We did not expect either design to be perfect at this early stage. Consumer and industry participants and the *Know Before You Owe* website comments indicated a preference for Design 1, but we wanted to choose on the basis of performance. To some extent, consumer participants performed well on both designs, and the differences in performance were nuanced. However, when we considered where consumer participants performed better with one design or the other, we selected Design 1. In Design 1, consumer participants were better able to identify the *Key Loan Terms* and the *Cautions* that went with them. Most consumer participants did this in two stages, first looking at the *Key Loan Terms* and then later returning to look at the *Cautions*. In Design 2, consumer participants also identified the *Key Loan Terms* and the *Cautions*, but saw them as two separate pieces of information which they did not connect.

In Design 1, consumer participants also identified the closing costs more easily than in Design 2. Closing costs are a critical factor for consumer participants to identify. Finally, we observed that consumer participants who had lower education and less experience with mortgage loans seemed to work more easily with the linear, top-down movement of Design 1. These consumer participants and others also commented on the contrast of the black tabs as making it easier for them to identify the sections. The horizontal lines of Design 1 also allowed consumer participants to better follow across the page. Given the tight deadlines to meet the legal requirement of the Dodd-Frank Act, we chose to refine Design 1.

At the same time, we knew we had issues to address in Design 1. Consumer participants needed more clarity around the monthly loan payment and the total monthly payment. We needed to address how the design could encourage them to read the *Cautions* at the same time as they read the *Loan Terms*. We also wanted to explore linking the *Cash to Close* and the *Closing Costs*. Finally, we needed to explore further the design of page 2.

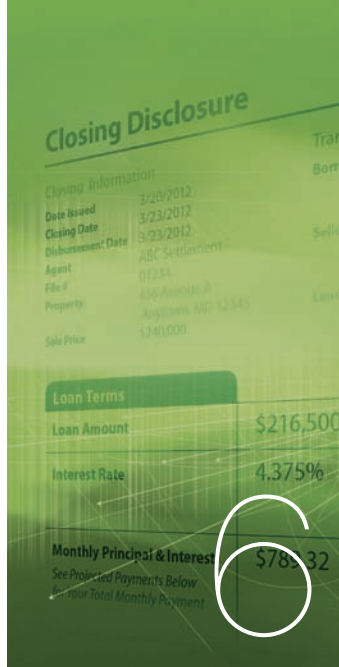
Revisions to Prototype, Round 1

As we prepared for Round 2 (California), we further refined Design 1. The table below summarizes significant changes.

TABLE 6. Revisions to Prototype, Round 1

Revision	Reason
Page 1, Design 1	
Changed design of information at top of page to match Design 2	To organize the information more clearly
Added <i>Loan Amount</i> to <i>Key Loan Terms</i>	To give the loan amount more prominence
Combined <i>Key Loan Terms</i> and <i>Cautions</i>	To simplify cognitive processing for consumer participants and to keep all cautions together
Changed question at top of <i>Key Loan Terms</i> from "Can key loan terms change after closing?" to "Caution?"	To ensure that question worked for all items included in the section
Added more emphasis to <i>Cautions</i> by adding shading and shifting to caps	To draw more attention to this word as a header
Provided a total for monthly loan payment in <i>Key Loan Terms</i>	To emphasize the components of the monthly loan payment
Provided breakdown of monthly loan payment in <i>Key Loan Terms</i>	To simplify the identification of the parts of the monthly loan payment
Added mortgage insurance to monthly loan payment breakout	To clarify the presence of mortgage insurance
Under <i>Projected Payments</i> , added up the totals for <i>At Closing</i>	To "do the math" for the consumer participants and clarify that the down payment is part of the total paid at closing
Under <i>Comparison</i> , added the <i>Estimated Closing Cost</i> to this section.	To give more emphasis to Closing Costs and to make it more easily linked to numbers on the back page
Under <i>In 5 Years</i> , changed the presentation of the numbers	To show the components of the amount paid and to present the numbers vertically
In <i>Comparisons</i> , changed the sentence to add the word "rate"	To reinforce that the section should be used to evaluate the loan and compare the loan with other loans
Moved the <i>Projected Payments</i> to below the <i>Key Loan Terms</i>	To use a different logic for its placement, so that it goes from key loan terms, to payments, and finally to how one might compare the loan with other loans. This logic better matches the cognitive map many consumer participants appeared to use.
Removed the <i>Estimated Taxes and Insurance</i> after initial payment period	To reduce the perception that taxes and insurance could not change
Added the monthly payments at the different interest rates for subsequent years	To show why the payment can change

Page 2, Design 1	
Eliminated the <i>Servicing and Appraisal</i> sections at bottom	To reduce information on page
Added information about locked rate to <i>Important Dates</i>	To clarify that time frame of rates is different from time frame for other terms
Changed time frame in <i>Change Frequency</i> to be months instead of years	To keep flexibility and maintain accuracy while eliminating conflicting language
Renamed <i>Estimated Closing Costs</i> table <i>Payments at Closing</i> table	To clarify closing costs and cash needed to close
Restructured table to have 4 main components: <i>Estimated Closing Costs</i> , <i>Escrow</i> , <i>Additional Funds</i> , and <i>Cash Needed to Close</i>	To delineate more carefully the types of funds needed at closing
Grouped required fees and services together	To reduce the number of components that consumers have to process, and to allow consumers to see more clearly the total numbers they can use to compare loans
Grouped fees and services that can change because of outside circumstances, such as property tax	To emphasize those fees that consumers may need to pay and that may change, but over which they have limited control
Provided a summed number of clear estimated closing costs	To highlight the closing cost numbers
Grouped escrow payments separately and excluded them from “closing cost” number	To separate and delineate these costs from closing costs because the amounts are based on estimated property costs
Showed all contributions that could adjust the cash needed to close	To show the calculation of the total cash needed to close
Kept the amount to be financed and placed it so it was clear about how it related to <i>Cash Needed to Close</i>	Showed relationship of financing closing costs to the total of <i>Cash Needed to Close</i>
Page 2, Design 2	
Match changes that were made to Design 1 for lower portion of page	See above
Took an itemized approach to page 2	To provide a more detailed list of closing cost information
Changed the hierarchy to be <i>Costs and Taxes</i> and <i>Services You May Shop For</i>	To provide two groupings with the intent that consumer participants would understand the costs over which they have control—column 2
Under <i>Costs and Taxes</i> , broke out <i>Loan Fees</i> , <i>Taxes and Government Fees</i> , <i>Items Paid in Advance</i> , and <i>Escrow for Future Bills</i>	To provide additional details about the costs that consumer participants must pay, but which are required
Under <i>Services You May Shop For</i> , broke out <i>Title Fees</i> and <i>Other Costs</i> and placed <i>Total Estimated Funds Needed to Close</i> with the total <i>Cash Needed to Close</i>	To provide a category for title charges; provide detail about other optional items or services for which a consumer can shop. To provide the calculation of <i>Cash Needed to Close</i>



Usability Testing Round 2 – Los Angeles, CA (June 2011)

Introduction

Based on the testing results from Round 1 and the supplemental feedback from the online outreach through CFPB's website, the team decided to move forward with Design 1. Both English and Spanish-speaking consumer participants had performed similarly with both designs. Most, especially those with lower education, preferred the higher contrast of the reversed tabs (white lettering on black background) and found the one-column layout to be more logical to follow.

Having made the basic design decision, our focus in Round 2 was on page 2, the *Loan Estimate Details*. We wanted to test the difference in consumer performance when presenting the *Loan Estimate Details* in a lump sum approach or in an itemized approach. We knew that industry generally preferred the itemized approach, but some research suggested that many consumers may be overwhelmed by the detail and fail to attend to it. Our goal was to identify the differences in performance as consumer participants used the two different approaches in the mortgage disclosures. Design 1 used a single table to show closing cost details with a lump sum approach and integrated the calculation of cash needed to close into the table. Design 2 used two columns dividing costs into *Costs and Taxes* and *Services You May Shop For* with greater itemization of fees and a separate table for calculating the cash to close.

To continue to investigate how the disclosure design would handle different loan types, we tested two loan types: a 5 year fixed rate, interest only loan and a 5/1 adjustable rate loan. We also wanted to continue to challenge

consumer participants with more difficult and multi-factored trade-off choices. Across these loans, we introduced variations in lender credits, interest rates, monthly loan payment, total monthly payment, the estimated closing costs, and the amount of cash need to close.

Research Goals

As in Round 1, the overarching goal of Round 2 testing remained focused on comprehension, comparison, and choice. We wanted to determine if consumer participants could understand and weigh the different loan terms and costs, consider their personal circumstances, make a decision that balanced all of these factors, and articulate the logic behind their choice. For Round 2, our more specific research goal was to determine whether the lump sum or itemized closing costs approach resulted in different behavior or different choices with consumer participants. We also wanted to learn as much as possible about how well specific aspects of the design worked, such as the *Monthly Loan Payment* and the *Projected Payment* table, and to identify what elements would need additional refinement or rethinking.

As in the previous round of testing, we wanted to explore any structural issues in the designs that could prove detrimental for speakers of a second language, specifically Spanish. To that end, experienced Spanish translators translated all tested disclosures and materials into Spanish and experienced Spanish-speaking interviewers tested the disclosures with Spanish-speaking consumer participants.

Who We Tested

For Round 2, we conducted 14 cognitive interviews in Los Angeles, California (each lasting 90 minutes):

- seven English-speaking consumer participants,
- five Spanish-speaking consumer participants, and
- two industry participants, one a lender and one a broker.

Consumer participants represented a range of demographics, such as age, education, income, and experience with mortgages. See *Appendix A. Demographic Summary*.

Interview Structure

For Round 2, we used the same interview structure as in Round 1. Consumer participants worked primarily with one of the two loan designs. We gave consumer participants an initial Loan Estimate. They were then shown a similar loan type but with different features. We asked them a series of comprehension questions. They received a third Loan Estimate that was a different type of loan. Finally we gave them the second design and asked them to compare them.

For industry participants, we followed the same interview structure as for consumers with some additional questions about implementation.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw loan types and designs in a carefully considered rotation or order. Overall, consumer participants looked at three distinct loans, one in both designs, for a total of four disclosures:

- one loan of Design 1 or 2 that was either (a) a 5 year, interest only, 30 year, fixed rate or (b) a 5/1, 30 year ARM loan;
- a second loan of the same design and the same loan product;
- a third loan of the same design, but a different loan product; and
- a fourth loan of the alternate design that was the same product and terms as the first loan.

For the English-speaking consumers, four consumer participants worked initially with the 5/1 ARM, and three worked first with the 5 year interest only. Three worked with Design 1 initially and four with Design 2.

For the Spanish-speaking consumers, three consumer participants began with the 5/1 ARM. Three consumer participants worked with Design 1 initially, and two worked with Design 2.

For the lenders/brokers, one participant worked with the 5/1 ARM in Design 1 and the other participant worked with the interest only in Design 2.

TABLE 7. Disclosure Rotations, Round 2

Participant	First Loan	Second Loan (with-in type of loan)	Third Loan (across type of loan)	Alternate Design
CA-001	Ficus Design 1	Fir Design 1	Balsam Design 1	Pecan Design 2
CA-002	Balsam Design 1	Beech Design 1	Ficus Design 1	Laurel Design 2
CA-003	Fir Design 1	Ficus Design 1	Beech Design 1	Poplar Design 2
CA-004	Beech Design 1	Balsam Design 1	Fir Design 1	Lilac Design 2
CA-005	Pecan Design 2	Poplar Design 2	Laurel Design 2	Ficus Design 1
CA-006	Lilac Design 2	Laurel Design 2	Poplar Design 2	Beech Design 1
CA-007	Poplar Design 2	Pecan Design 2	Lilac Design 2	Fir Design 1
CA-Spanish-008	Ficus Design 1	Fir Design 1	Balsam Design 1	Pecan Design 2
CA-Spanish-009	Fir Design 1	Ficus Design 1	Beech Design 1	Poplar Design 2
CA-Spanish-010	Balsam Design 1	Beech Design 1	Ficus Design 1	Laurel Design 2
CA-Spanish-011	Poplar Design 2	Pecan Design 2	Lilac Design 2	Fir Design 1
CA-Spanish-012	Lilac Design 2	Laurel Design 2	Poplar Design 2	Beech Design 1
CA-Lender-001	Fir Design 1	Ficus Design 1	Pecan Design 2	N/A
CA-Broker-002	Lilac Design 2	Laurel Design 2	Ficus* Design 1	N/A

*instead of showing Balsam (interest only) as planned, we showed Ficus (5/1 ARM)

What We Tested—Design

We kept the content consistent between the two designs to reduce variability. Page 1 of the two designs was identical. In Design 1, page 2 used a lump sum approach to closing costs. In Design 2, page 2 used an itemized approach.

Design 1, page 2 used a single large table with three sections—*Estimated Closing Costs*, *Escrow*, and *Additional Funds*—to calculate the cash needed to close. Within *Estimated Closing Costs*, fees for origination charges and services consumers cannot shop for were each a lump sum with no breakdown of fees. Some itemization was provided for services they could shop for and for prepaid items. Twelve items were listed out.

Design 2, page 2 used three one-column tables—*Costs and Taxes*, *Services You May Shop For*, and *Total Estimated Funds Needed to Close*. Each table was divided into subsections and each subsection itemized specific fees and costs. There were 25 items listed.

What We Tested—Loan Type

We tested two designs and four loan products in each design:

- two different 5 year interest only, fixed rate loans and
- two different 5/1 ARM loans.

The total was eight disclosures. See Table 8. Loan Type, Round 2 for detailed differences across the loans.

TABLE 8. Loan Type, Round 2

Design 1 English and Spanish		Design 2 English and Spanish	
Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Balsam Bank	30 year 5 year interest only @ 4.25% Closing costs of \$11,572	Laurel Bank	30 year 5 year interest only @ 4.25% Closing costs of \$11,572
Beech Bank	30 year 5 year interest only @ 4.875% Closing costs of \$3,679	Lilac Bank	30 year 5 year interest only @ 4.875% Closing costs of \$3,679
Ficus Bank	30 year 5/1 ARM @ 2.75% As high as 8% in year 7 Closing costs of \$11,448	Pecan Bank	30 year 5/1 ARM @ 2.75% As high as 8% in year 7 Closing costs of \$11,448
Fir Bank	30 year 5/1 ARM @ 3.5% As high as 10.5% in year 7 Closing costs of \$3,254	Poplar Bank	30 year 5/1 ARM @ 3.5% As high as 10.5% in year 7 Closing costs of \$3,254

See Appendix D. Loan Estimates (English) for Round 2 – Los Angeles, CA and Appendix E. Loan Estimates (Spanish) for Round 2 – Los Angeles, CA for the disclosures that were tested in Round 2.

Overall Findings

Consumer participants could understand the costs and risks of various loans

Consumer participants met the goal of understanding the costs and risks of the various loans presented to them. Consumer participants could use *Loan Terms*, *Projected Payments*, and *Comparisons* to see important information such as monthly loan payment, changes in loan payments over time, interest rate changes, and the amount of principal being paid off. In addition, they noticed that *Closing Costs* were different in the Loan Estimates, even if they did not immediately understand why.

Both English-speaking and Spanish-speaking consumer participants could use the disclosure to identify costs and risks of the loans. Consumer participants were able, in almost all cases, to recognize the most important aspects of the loan, including interest rate and payments. In particular, consumer participants were able to recognize that the interest rate of adjustable rate loans changes over time.

“ [This is an] adjustable rate. Just means that you are going to get a low rate usually in the beginning and it is going to stay consistent for five years and it will move to a higher rate...So in Year 6 and 7 through 30 there are different numbers given. (CA-001)

I can see that it can increase up to 8% in seven year, and how much more it could possibly increase. I personally would like it better if it was fixed. Because that way I can look at my budget, since I don't know in two or three years what my income will look like. Therefore, if I have something that is fixed, I can say that I have this much and I can put so much aside. (CA-Spanish-008)

Consumer participants, using a combination of information in *Loan Terms* and *Projected Payments*, could connect that adjustable interest rate loans and interest only loans led to increases in payments over time and that these loans were only right for certain types of situations.

“ ...it would depend on what your situation is; if you are going to stay in the home or going to be out of the home for x amount of time to determine whether you want this kind of loan or should I be asking the mortgage broker for more details on fixed rates... (CA-001)

We are talking about double the amount in five years. I mean, in comparison to the first payment made, the amount will increase times two after five years. (CA-Spanish-008)

It [adjustable rate] is a loan that has an interest that is not set, meaning it's not always going to be 3% or 4%, it's going to be adjusting over time. After three years, it's going to adjust to an amount; after four years, it's going to adjust to another amount, and it can go up to 10.5%, and you never know when. (CA-Spanish-009)

Several consumer participants also remarked that these adjustments could signal risks, and were particularly sensitive to the changes in the economy and the risk that the economy brought to the loan.

“...the thing with the economy right now is you never know. What if something happens to you within the six years and you can't pay this payment? Then you are stuck and you can't afford it. You may have to let the house go. It is risky. It is something that, of course, everybody wants to start at a low payment and then after six years it goes high. What if you lose your job? What if you are not healthy? Anything can happen from one day to the next as we all know. It is what is happening right now. So definitely it is risky. (CA-006)

At the end, it's very risky because tomorrow you don't know how the economy is going to be, and I've seen from my own experience, a lot of people have lost their homes because they had more or less uncomfortable payments. But, if the husband or wife loses their job, they cannot make the payment, and they may want to refinance, but they can't qualify. I think it's very sad. This is very risky. I wouldn't take it. (CA-Spanish-011)

In particular, information under the *Cautions in Loan Terms* about the rise in interest rate was noted by several consumer participants. For the 5/1 adjustable rate loan, a few consumer participants felt that the 10.5% maximum interest rise was an immediate “red flag.”

“As I'm seeing here, maximum interest rate 8%, I do remember when 8% wasn't so bad, but 10.5, that's a lot and I would be very cautious about taking this loan on that alone. (CA-005)

I would make the decision based on the interest I am going to pay, the 10.5. For me, I wouldn't take it. Truly, I wouldn't take it because it increases too much. The 10.5 is too high, especially if we're talking about today's time when interest rates are so low. (CA-Spanish-009)

Yes, that it's adjustable—it can go as high at 10.5. Wow, that's really high—3.5 to 10.5. (CA-Spanish-011)

For the five year interest only, fixed rate loan, some consumer participants were able to identify that they would not be paying principal and felt this was risky.

“...The other thing that would scare me is, like I said, there is no principal for five years. If I were to take this loan I would want to be able to pay off the principal with the loan. So in Year 6 you are not jumping to such a higher amount. You're talking almost \$500. (CA-007)

The only thing on this one is that it doesn't have any principal—meaning for five years you pay, but you haven't paid anything for principal. Whereas the other ones, you have paid some amount. Meaning that everything is going towards the interest on the mortgage. In five years, nothing has gone towards your loan...I wouldn't choose it because you're only paying interest, you're not paying anything towards principal. (CA-Spanish-009)

Consumer participants seemed to easily recognize differences in closing costs across loans. In short, they could see which would cost them more at closing. However, consumer participants were often initially confused about why closing cost amounts differed between loans. They could not see the differences in line items, specifically the *Lender Credits* that resulted in lower closing costs for one loan versus the other.

“ *Estimated closing costs is significantly less for some reason. I have to see all the details on page 2. That is interesting to me because that is an \$8,000 difference. (CA-001)*

This [Fir] is saying cash needed to close is \$25,000 versus this one [Ficus] is \$33,000. I'd have to look into it more to try to understand this is such a significant difference. (CA-003)

Consumer participants could use the disclosure to compare similar and different loan products

Consumer participants were able to compare both similar and different loan products. They used various pieces of information on the loan disclosures to accomplish this task—including *Loan Terms*, *Projected Payments*, *Comparisons*, and *Loan Details*. Although almost all sections of the disclosure were used, some sections (such as the *Lender Credits* on page 2 or the *APR* on page 1) were not clearly understood by all consumer participants. However, these misunderstandings did not significantly affect consumer participants' ability to compare similar and different loan products.

Both English-speaking and Spanish-speaking consumer participants successfully compared interest rates, monthly payments, closing costs, principal paid in five years, and variations across loans in side-by-side disclosure *Comparisons*. Consumer participants were also able to articulate differences among competing Loan Estimates as a first step in rationalizing reasonable choices between similar and different loan options.

“ *The loan amount's the same, interest rate being higher here of course. I notice that the interest rate and the APR are different...When looking at the face sheet what does jump out at me is I do see a higher interest rate on the Laurel loan, but I also see what appears to be a lesser monthly figure for Years 1 through 5 and then what appears to be a lesser amount for Years 6 through 30 because I initially noticed that at the beginning this loan is slightly different. It's a five year, interest only loan which is reflected in the lesser amount for the first 60 months. (CA-005)*

Wow, this closing is much higher. Maximum interest rate and minimum interest rate are lower. But up on closing, it costs \$33,896 and the other one only costs \$25,000 and something. So it is a lot higher than the other one...and estimated closing costs, look at that—\$11,448. Wow, that's a lot. The annual percentage is 3.28, which is good because it's a little less than the other one. In five years, the amount that you have paid—it gives you a little more on the amount that you have paid for principal, but the difference is not a lot. So it's the same as the other one. (CA-Spanish-009)

The amount to be borrowed is the same. The interest rate is less but it can go up to 8% which is better than the other. Monthly loan payment is less for starters. \$33,000 at closing. The payment is less but it is almost the same in Year 6 just a little less on Year 7, but then it goes up considerably still. Wow, \$800 a month...wow, it's a lot. (CA-Spanish-011)

Consumer participants could use the disclosure to choose between loans, make trade-offs, and express reasonable rationales for their choices

Most significant to this round of research was that consumer participants could move beyond simple *Comparisons* and apply a more sophisticated use of trade-offs to weigh the advantages and disadvantages of different loans in relation to their personal circumstances. They were able to work both within a loan product and across loan products using various elements of the disclosure to “think through” their choices. When asked to compare within and between loan products, consumer participants tended to place the disclosures side by side and looked line by line at the similarities and differences. After completing that step, the consumer participants appeared to integrate the information and articulate a rational decision.

Many consumer participants recognized the relationship between higher immediate closing costs for a lower interest rate and lower monthly payments over time. These consumer participants were able to articulate that there were trade-offs to be made between interest rate, closing costs, and monthly payments and that one might pay more upfront but less over time. Their reasoning demonstrated an understanding of both the immediate and long-term costs of the loans.

“ *It just seems to me like this one you may pay a little bit more money upfront or a little more in the beginning, but your monthly payments would be cheaper because you are putting in more cash obviously, and every time you put more cash in your dollar goes lower. (CA-004)*

Although, this one has more closing costs, after multiplying the amount times 30 years, it's going to be better for me. The amount is going to be less. (CA-Spanish-008)

It was only 10% down...because I could then preserve as much of my money as possible. But at the same time I would still take that with a bit of caution, because that's a good thing now, but maybe, obviously over the 30-year period, that's 10% more or roughly \$31,500 that I'm financing and maybe if I do have the funds, I should be putting more down. (CA-005)

As noted above, many consumer participants were able to identify a major implication of an interest only loan which is the failure to build equity. In terms of long-term tradeoffs, a few consumer participants felt that interest only loans offered more stability and predictability because of the relatively low fixed rate when compared to the adjustable rate loans and the ability to “foresee” the change in payment.

“ *It will be a fixed interest rate. It will be the 4.8 where those [other loans' interest rates] fluctuate. It will be that for years. It's more solid to me...I know what will be and I'll be prepared for that. It's a fixed rate and I can always refinance. (CA-003)*

But the fixed amount in Years 6 through 30 [in the I/O] appeals to me as compared to the Pecan loan [an ARM] because it's a number that number one is not significant to me, it's probably a 30% change from \$1,721 to \$2,312 but in absolute dollars it's something I feel I can work with. (CA-005)

Escrow was an additional “trade off” that some consumer participants articulated in addition to closing costs, interest rate, and monthly payment. Consumer participants seemed to understand what an escrow account meant conceptually even though they did not easily connect the different areas of the disclosure related to taxes and insurance and escrow. Several consumer participants stated that they preferred when the loan had an escrow account and factored this into their decision of which loan to select.

“ Also, comparing the escrow, it says on the first one it includes it in the payments. And on the second one, it says no, you have to cover the taxes and insurance on your own. Seeing this—the first one is better because in my case, and I'm just talking about my family, it is more convenient for us that the taxes are included in the payments and you don't have to save it on your own. (CA-Spanish-012)

I actually would prefer this one here [Laurel] because it is lower interest rate...Plus you have your taxes and insurance included in there too so you don't have to worry about paying taxes separately. So I like that. (CA-006)

Consumer participants used page 2 to learn more about closing costs and to further assess the loan, but they were unsure what *Lender Credits* represented

After working with page 2, consumer participants were often able to begin accounting for the differences in closing costs. Some were able to articulate that the differences were coming from *Lender Credits* while others were able to note that the inclusion of escrow also had an impact on the overall closing costs.

“ Well, on this one it's \$25,000. Oh, because the closing costs here are \$11,000 and here are \$3,000. The lender credits are \$9,000 in this one, but nothing in this one. They're not lowering anything in this one. (CA-Spanish-011)

The lenders credits, well the first one has no lenders credits, this one has \$9,000 in brackets and then estimated closing. I am assuming that the lenders credits is what is offsetting the cost on this one to be \$3,000 versus the \$11,000 so that would be a question just to make sure. (CA-001)

There's a slightly higher figure in item C, items paid in advance. And the escrow amount for the taxes and insurance on this loan, that's where one of the largest figures comes from, almost \$2,000. (CA-005)

Even when consumer participants recognized that a lender credit was reducing the closing costs, they were unsure what that this credit represented. Some asked for additional details or information about what it was and whether it might affect them in the future.

“ I think that was my overall thing—wanting to know why this one is so much more. This does have a lender credit. I want to understand what that means. Would I have to pay it back? Or is it like a credit, like it’s a credit to me? (CA-003)

Well, the fees on the back show that this one is more expensive...but that is only because of the lenders credit which I am still not clear on. (CA-001)

[The] lender is crediting you for \$8,500...which is great but what is it? The lender is not paying for any costs because lender credits. I would need to know what the lender credits are. That is what he would be paying for I guess. (CA-006)

Specific Findings

Cautions

Consumer participants understood that the *Cautions?* column was meant to draw their attention to important information.

“ It lets you know that there are some things that can change in the loan that you may not know or the lender may not be disclosing to you clearly, so if you see that, you know how lenders sometimes just move you along through a loan. If you saw that it would make me take note to that and questions that more—look into the details. (CA-001)

[Cautions] is telling you to look at it...3.5 sounds really good, but if you read next to it, it’s telling you that it’s not always going to be that, that it can increase to 10.5. (CA-Spanish-009)

At the same time, some consumer participants were unsure about the “?” after the word “Caution” and commented that it seemed an odd choice.

“ I don’t know what caution there is with a question mark. Should there be something there? Are they telling me to caution here? So that is something. (CA-001)

So the first thing that jumped out at me was caution with the question mark. What does that mean? (CA-007)

Projected Payments

Consumer participants continued to pay attention to and use the *Projected Payments* section. Although most consumer participants did not read the sentence “Expect to make these payments,” they all read and noted the change in payments and had a basic understanding that they would be paying more in the future. Consumer participants often registered surprise that the payment could go as high as it would and it seemed to help them identify differences.

“ Once again, with the projected payment section I do notice that because of the interest rate and the variable factors that go into it, I notice that the potential of monthly payment amounts can go up rather sharply...In the worst case scenario and for the majority of the loan, Years 7 through 30 I see it could go up to \$3,212, almost \$500 more. (CA-003)

The first [payment] can change from 1 to 5 years, the next one can change on the 6th year, and the other will change after the 7th year until the 30th year. (CA-Spanish-009)

Wow the monthly payment can go up to \$3,200? Wow, that’s a lot. (CA-Spanish-011)

Consumer participants struggled with the *At Closing* section of *Projected Payments*. A few consumer participants thought the *At Closing* heading related to the three columns marked with years while others thought the amount in *At Closing* related to the \$35,000 down payment. Most consumer participants were able to connect the *At Closing* box with page 2, but some were not clear which “details” they should look at on page 2.

“ [At Closing is] including the \$1,270 loan payment plus the \$445 estimated taxes and insurance and then your monthly \$1,721 a month (CA-002)

You would include, in my understanding...the down payment...and you would include property taxes, mortgage insurance, and risks. So, it would be...well, no, it includes everything. It includes the estimated closing costs and that would be everything. Yeah, it includes the hazard insurance...everything from estimated closing costs all the way down to G, down payment. (CA-Spanish-010)

Then at closing number, yes, you had all these other fees, appraisal, tax, owners insurance, title, inspections, hazard, and...the payments at closing. Reserves and then escrow and additional funds too all of that is under payments at closing. (CA-001)

Reserves for Future Costs/Escrow for Future Bills

Many consumer participants were unsure about the exact purpose of *Reserves for Future Costs* in Design 1 and “escrow for future bills” in Design 2, especially when those sections were left blank. When those sections were filled in, consumer participants often surmised, correctly, that they related to taxes and insurance being taken out monthly but still could not clearly articulate the concept. However, almost all consumer participants *could* determine when a Loan Estimate did or did not include escrow for taxes and insurance based on the escrow box at the bottom of page 2.

“ Reserves for future costs. I'm not understanding what that one means. (CA-002)

I see that they don't have any reserve for future costs [listed]. I'm not sure what that means, either. Like they're already adding to my loan and putting that aside so in case, I don't know, something happens... (CA-002)

What, they put money aside for in case, I don't know, the mortgage goes up and down? (CA-002)

In case the insurance went up and they wanted to make more money, that's where they would include it. (CA-Spanish-008)

Adjustable Interest Rate Information

Consumer participants were able to read the *Adjustable Interest Rate Information* table in both designs, and some used this information to link to the changes in the *Projected Payments*. At the same time, they did have some trouble with unfamiliar terms such as LIBOR.

“ So if you had a margin loan, it is telling you what your maximum interest rate would be. Your maximum could be 10.5% your max, your minimum 4%, and then your limits on your interest rate changes. So your first change which is at the 61st month would be 5%. They couldn't go higher than 5%. (CA-007)

Well it appears to be five years and one month after the initial, or the beginning of the loan. Its change frequency is described here. And every 12 months thereafter. It's a little twisted because that would be, it would be starting in 61st month and then it's in the 73rd month, not the 72nd month. That's just a technicality. (CA-005)

[This tells me] exactly how much the interest rate is going to cost you at its maximum and how much it's going to be at its minimum and the margin. And it's also telling you about the adjustment limits on the interest rate. The first is going to be 5% and after that it could go up 2% every time. It is letting you know in advance what could happen to the loan. (CA-Spanish-009)

Some consumer participants were confused between the minimum interest rate in the *Adjustable Interest Rate Information* table and the interest rate in the *Loan Terms*.

“ It says minimum interest rate 3% but I thought it said 2.75% over here...It says 2.75% there and the minimum here is 3% so I do not understand that. (CA-001)

It said 3.5 for five years and it would go as high as 10.5 versus the back, I think it said the minimum would be 4%. So I'd want to know: why is there a difference of .5%? (CA-003)

It was weird that the interest rate was different in two different places. I'd want something more solid. Why would it be 3.5 one part—what am I missing that the other part said minimum 4%. (CA-003)

Comparisons

In 5 Years

Consumer participants tended to use the *In 5 Years* section to understand more about the terms of the interest only loan presented to them. For these loans, the *In 5 Years* section helped consumer participants see, reinforce, and note: no principal was paid off in five years.

“Because of the way the loan is, the terms of the loan, all the money is going toward the interest only so you have no principal in front of you. (CA-001)

It pretty much tells you that you haven't paid anything on your house and you are just pretty much paying the interest...It probably just lets you know what you are getting into. (CA-004)

At the same time, a few consumer participants were confused by the definition of *In 5 Years* as it related to interest only loans. The first line indicates that the amount includes “Total you will have paid in principal, interest, mortgage insurance, and fees,” which did not make sense to these consumer participants because they knew that no principal was being paid in the first five years.

“In five years it says, “\$90,068 total you have paid in principal, interest, mortgage insurance and fees.” Now they are saying the principal is included here. That is what it is telling me and then principal you have paid off is zero. Then they put here total you have paid in principal and then principal you have paid off which is zero. That is sort of confusing. Why are you paying principal here and all of a sudden that you paid in five years and then they put in principal you have paid off zero? (CA-006)

The industry participants interviewed specifically noted that the *In 5 Years* section would be helpful in showing consumers how the loan is structured and will work better than showing them the life of the loan.

“And again, it looks like a good understanding here is basically in five years what the total principal and interest would have been paid—people know that up front. In other words, when you tell them what it is over the life of the loan, that becomes too much information, it's too large of a piece of information. So the idea is they're breaking it down into a five-year period of time. (CA-Broker-002)

Let's see here...when you pay it off. That's kind of good info. I notice here, this is actually kind of what I explain, too, in five years, prepaid interest, that's really helpful. (CA-Lender-001)

Annual Percentage Rate (APR)

At least one item in *Comparisons*—APR—was problematic for consumer participants. As in Round 1 (Maryland), consumer participants continued to be confused about the difference between APR and interest rate, even with the definitions provided. When asked what APR was, most could only recite the definition provided. When probed about its meaning, almost all consumer participants struggled.

“ Well the annual one is maybe once a year or something and the interest rate probably is...I don't know. I am not sure. (CA-004)

Maybe they figured it [APR] in as this is the interest rate but maybe it is calculated on the year? This is maybe per month; that is per year. I am not sure. (CA-006)

I'm looking at the APR. Your interest combined with the fees over 30 years has a yearly value, so I'm not exactly sure—I assume but I'm not entirely sure if we're talking interest rate of 2 and 3/4 and then I see here the APR of 3.28...if this is the one that relates to this. It appears that way, but I'm not sure. (CA-007)

The APR. I am not sure what that would be. (CA-008)

Design Findings

Primarily, we wanted to identify better performance rather than simply the preference of consumer participants. In this round, consumer participants answered direct questions about page 2 almost equally well on the two designs. But in each design, we observed a difference in behavior that suggested potential performance differences. When looking at Design 1, consumer participants more frequently spontaneously talked about how they could shop. When looking at Design 2, consumer participants more frequently spontaneously questioned the fees listed on page 2.

Consumer participants preferred Design 2, page 2 over Design 1, page 2. In general, consumer participants commented positively on the first design they saw. However, when a second design was introduced and consumer participants had a chance to compare the two, most consumer participants preferred Design 2, page 2, which had greater itemization of closing costs. Consumer participants identified the closing cost categories and the additional detail as the major reasons for their preference. Overall, nearly all consumer participants looking at Design 1 or Design 2 said they would not remove any detail from the back page, nor label it as “unnecessary.”

Consumer participants tended to notice their ability to shop more in Design 1, page 2

Consumer participants tended to notice the “shopping” references more in Design 1. In particular, they commented on the statement *You Can Shop for These Services*. Design 1 seemed to prompt more spontaneous comments indicating that the participant would like to shop for or negotiate costs. When using Design 1 (whether shown first or second in the interview), consumer participants tended to notice certain line items more easily and to mark them as important, such as *Lender Credits* and shopping statements. Additionally, when using Design 1, consumer participants asked some spontaneous questions about the term *Reserves for Future Costs*.

“ I like the description there about you can and cannot shop for... (CA-005)

It gives you a breakdown of what you can shop for which is more self-explanatory. You can see this right there...They are saying you can shop for these. These are standard so take it or leave it. I like the explanation here. (CA-006)

Oh, it says services that you can shop for...so you can negotiate your services. It's very good. It's very well detailed—because it explains that it can be negotiated...you don't necessarily have to go with the services that are shown here. They can go lower. So it's to our advantage as the consumer, as the purchaser. (CA-Spanish-011)

One issue with Design 1 was that consumer participants did not know where the \$10,000 earnest money deposit was represented.

Consumer participants had more questions when using Design 2, page 2

As discussed below, consumer participants strongly preferred Design 2, page 2 because it was “broken down,” “gives more information to compare,” and would “make me ask more questions.” In terms of actual performance, consumer participants had more frequent questions about costs when looking at Design 2. Specific questions generated with Design 2 tended to be about *Section A. Loan Fees*, *Section C. Items Paid In Advance*, and *Section E. Title Fees*. *Section E. Title Fees*, in particular, tended to generate questions about why these elements cost what they did or what they were (e.g., what is a commitment letter and why is it so expensive?, or what is a title binder and why is it so expensive?).

When using Design 2 (whether shown first or second in the interview), consumer participants tended to notice loan costs, title fees, and estimated funds needed to close, and escrow for future bills more easily and mark those as important. Consumer participants, specifically, tended to notice and comment favorably on the breakdown of title fees. Also, when using Design 2, consumer participants seemed to have slightly less confusion about totals when a minus sign was used instead of parentheses.

Two issues with Design 2 were that only a few consumer participants noticed the heading *Services You May Shop For* in column 2 and that some consumer participants were confused by the different types of taxes in *Section B. Taxes and Other Government Fees*.

Consumer participants preferred Design 2

Overall, English-speaking and Spanish-speaking consumer participants and the industry participants preferred Design 2 (79%) to Design 1 (21%).

TABLE 9. Design Preferences, Round 2

Consumer Participants	Design 1	Design 2
English-speaking consumers	1	6
Spanish-speaking consumers	2	3
Lender/Broker	0	2
Total Percentage	21%	79%

The majority of consumer participants preferred Design 2, page 2 because of the additional detail and the greater breakdown of information. Many commented that it was easier to read because the division of sections was clearer to them.

“ This form [Design 2] I like better than this one...because there is more detail with the cost and taxes and it is more concentrated in the areas...it is just more detailed. You do not have [the costs] going across the whole page. [The costs] are right in that section. It just seems easier to read and seems like it is more detailed. (CA-001)

...it's giving me more of a breakdown here, where here it is not giving me a breakdown. It looks cleaner, more professional. This [Design 2] is more detailed. It's more straightforward. You can see everything more clearly. However, on this one, with the breakdown of the costs, you have to look at the [far] right hand side. But on this one it is line by line. It is more detailed. (CA-Spanish-010)

Consumer participants preferred the additional fee/cost detail on Design 2, Page 2

Some consumer participants suggested a practical or moral rationale for choosing the more detailed version of page 2. They believed that purchasing a house is a major investment—and additional detail seemed to give a sense of comfort that they were making a more informed purchase.

“ It has all the fees on there. I just like especially if you are going in to make such a big purchase, I definitely like seeing where I am getting charged at and this one demonstrates that for me. (CA-002)

One side of me likes what appears to be the simplicity of reading this [Design 1], but on the other side I think detail is important. So you know, even though it's easier to look at this, maybe I do need to have everything and then read it in greater detail [Design 2]. So to be a good consumer, to be fair to my family, maybe this is better, knowing more information. You could never have too much information on an important decision like a loan. (CA-005)

Consumer participants liked and specifically mentioned that Design 2 labeled services you can and cannot shop for, and some even mentioned that they might be encouraged to shop based on this information.

“ I like the description there about you can and cannot shop for... (CA-005)

It gives you a breakdown of what you can shop for which is more self-explanatory. You can see this right there...They are saying you can shop for these. These are standard so take it or leave it. I like the explanation here. (CA-006)

Oh, it says services that you can shop for...so you can negotiate your services. It's very good. It's very well detailed—because it explains that it can be negotiated...you don't necessarily have to go with the services that are shown here. They can go lower. So it's to our advantage as the consumer, as the purchaser. (CA-Spanish-011)

Spanish Vocabulary

As in Round 1 (Maryland), the slight variations in performance across English-speaking and Spanish-speaking consumer participants can be attributed to translation issues (e.g., the Spanish translation of balloon payment was not readily understood by the population of Spanish-speaking consumer participants). The performance differences were not centered on the structure and design of the disclosures.

Industry Findings

The industry participants in Round 2 reiterated many of the same findings reported in Round 1 (Maryland). In particular, they thought the designs, overall, worked well and would help consumers compare among different loan options. Both felt the items included on page 1 were helpful for consumers in laying out the basics of the loan. They both felt that the designs would potentially prompt new consumer questions that they would then need to answer—particularly regarding how high the interest rate and/or payments can go.

“ Well, the fact that, number one, the interest rate and the monthly payment are shown in larger block letters and numbers, that information is helpful because the idea is if they did compare side by side comparisons they would see that the numbers are different, i.e. the interest rate, and also the fact that there’s an escrow account that had been set up for Laurel’s loan versus Lilac’s loan. (CA-Broker-002)

So if they took their time they probably would notice the differences. Absolutely, of course they’re going to notice a difference right away on the estimated closing costs... (CA-Lender-001)

The industry participants each preferred Design 2, page 2. They would like to see more, not less, itemization and felt this version provided a more effective breakdown of costs. Both thought the overall detail of Design 2, page 2 would be helpful to consumers.

“ I like this [Design 2] a whole lot better. That’s a very good disclosure, much more detailed...it saves me explaining all this information that is actually thoroughly spelled out here now. The first thing [Design 1], I would just throw it away. I wouldn’t even look at this twice honestly. [Design 2] has much more details, that’s just much more detailed. A lot easier to explain to a borrower. This saves me a lot of explaining. I could...walk them through this thing a lot easier. (CA-Lender-001)

Just looking at the format, for me looking at the example of Ficus [Design 1], for me this would be very easy to understand and probably explain. For a consumer, they might look at it [Ficus] like they look at a schedule on their income taxes—that is intimidating for them, and at that point they would almost shut down. I’d be able to point out to them this is the fee that I would be charging, this is for the appraisal fee, this is for the title fee, this is for the property taxes and all that. But the idea is when they see this, they sort of freeze up. So I would say if you have a format like Laurel [Design 2], you’re probably better off for

the consumer's point of view, because the idea is they can say oh, I see, OK, and the idea is they can much easier identify with their eye what they are looking to find...So therefore, both statements show the information, it's just stated in a different format. One is easier for the consumer to digest [Design 2]. (CA-Broker-002)

Both industry participants thought including and showing the closing costs was important and that the disclosure did a good job of providing that information to consumers.

“ I think that the information for the closing carries forward directly to the comparisons portion, because the idea is that that information shows the estimated closing costs, and it says 'detail from page 2,' which you turn the page over, and it would show how much and, again, the principal, interest and mortgage insurance and fees. (CA-Broker-002)

I like the closing statements though...Yeah, I like that a lot. That's always...that's something that's very good for disclosures...I think it's just right, yeah, absolutely because they give all the main costs of closing alone...Looks like you got everything on here, closing costs. It looks like everything's there from what I can tell from what I remember, yeah...it does connect well enough because you are saying go see page 2. You are referring to that. Yeah. It connects well enough to reference. (CA-Lender-001)

One industry participant thought the *Projected Payments* table would be helpful to consumers because it lays out the payments and the changes. At the same time, he suggested that the principal, interest, taxes, insurance, payments (in *Loan Terms* and *Projected Payments* on page 1) and *Escrow* (on page 2) were still not sufficiently connected to each other for the consumer.

“ *Is this the full payment or just principal/interest payment? That's something very, very important. They're going to want to know that as well. Okay so I would put...see they're going to ask this question. This obviously is personal interest but it shoots down here right away. So this should say PITI...So it would be principal, interest, and tax and insurance. Yeah. I'd like to see the...I'd personally like to see the payment broken down a little more. Principle, interest, tax, and insurance...First-time buyer, I've got to walk them through that also too. But it's good to show that and broken down so they completely understand that...Then I'd have a disclosure saying especially since you're having it [escrow] kind of way in the back here, I would have it more detailed on here as far as you will be paying separately the tax and insurance. (CA-Lender-001)*

Another industry participant felt informing consumers about escrow and who is responsible for paying taxes and insurance was important and that the disclosure laid that out clearly for consumers.

“ *On the left side I noticed that the escrow account is stating that it is a requirement that the individual pays their taxes and insurance themselves, because the idea is the payments are not being impounded. Therefore, it's incumbent upon them at the time that the property taxes are due, the insurance is due, that they pay that on a timely basis. That's a requirement that the lender has...Here it's clearly stated, and I think that's very important. It's stating it in very clear language and there's no ambiguity about it, or it can't be stated that sometimes the information can't be found in the Truth in Lending statement. (CA-Broker-002)*

In terms of industry implementation, the lender participant felt the new disclosure might make the process a little easier and the broker participant felt the disclosure would help both the consumer and the process. Both reiterated the need and desire for a signature.

“ Well it makes it a little easier for paper requests because you’re wrapping everything in one but right now I would not want this because it’s not complete to me personally...It makes it simpler obviously. This covers what the Good Faith does, [inaudible] Good Faith most definitely. I’d also want something for them to sign because with a Good Faith Estimate we do have a signature on there. I would want them to sign this also too. (CA-Lender-001)

I would say that once we’ve incorporated these new documents into the process, it would help the consumer. It would also probably help the loan process, because the idea is that we were getting extremely burdensome with the quantity of paper as well as the complexity. (CA-Broker-002)

Conclusion

Overall, the two designs of the disclosures worked extremely well in terms of comprehension, comparison, and choice. Consumer participants were able to identify the terms of the loans and the variations in the estimates of interest rate, *Projected Payments*, and closing costs. Using this information, they could make sophisticated trade-offs. Consumer participants also expressed a desire to shop, either for a loan that fit their personal needs better (e.g., lower monthly payments) or on specific aspects within the loan that they selected (e.g., a fixed rate loan). Overall, page 1 worked well in disclosing important elements of the loan. However, not every aspect of page 1 worked perfectly, and the changes needed ranged from more complicated issues—such as fixing taxes and insurance, to simpler issues—such as removing *Cautions*.

For the page 2 design, there was a clear preference for Design 2 with the itemized approach. We did observe that consumer participants with Design 1, page 2 more frequently noticed that they could shop for some fees. However, we also observed that consumer participants with Design 2, page 2 more frequently challenged the fees or asked questions about the fees listed on page 2.

Revisions to Prototype, Round 2

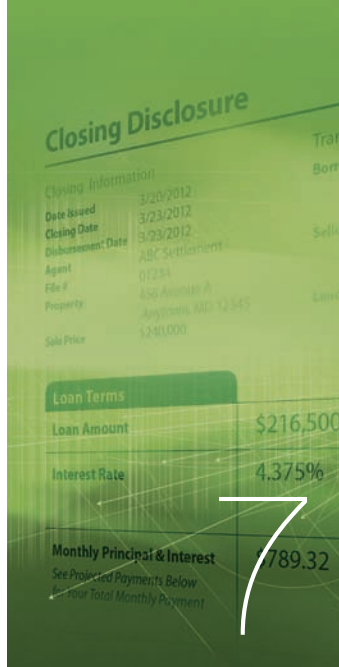
Moving forward into Round 3 (Illinois), we modified page 1 of the disclosure to correct the issues described. We also made more substantive changes to page 2 of both designs to organize the information better with the intent to identify performance data again about the lump sum and itemized approach to *Closing Cost Details*.

The table below summarizes the significant changes and why we made them after the second round of testing.

TABLE 10. Revisions to Prototype, Round 2

Revision	Reason
Page 1	
In the heading, moved the Date Issued to the top of the page	To put the critical date at the top and to allow for the other important date information to be placed at the top of the page
Added the information about locking the rate and the expiration date to the top of page (from page 2)	To give this information more prominence
Reorganized the labels for the descriptions of the loan	To help consumers understand these descriptions better
Changed <i>Caution?</i> to <i>Can this increase after closing?</i>	To ensure that consumers fully understand the question
Added a second question to the table "Does this loan have these features?" and placed it above <i>Prepayment Penalty</i> .	To have a logical question for the last two items in the <i>Loan Terms</i> table after removing <i>Cautions?</i>
In <i>Projected Payments</i> , under <i>At Closing</i> , added "Includes estimated closing costs"	To make a more explicit link between closing costs and <i>Cash Needed to Close</i>
In <i>Projected Payments</i> , under the loan payments, used the same amount as what was listed in <i>Loan Terms for Monthly Loan Payments</i> .	To make an explicit link between the <i>Monthly Loan Payment</i> in <i>Loan Terms</i> and the monthly payment in <i>Projected Payments</i>
Added a separate section about <i>Estimated Taxes and Insurance</i> and escrow to the <i>Projected Payments</i> table	To make escrow information clearer, the connection to page 2 more explicit, and to ensure that consumers can see and understand that the taxes and insurance are in addition to the monthly loan payment
In <i>Comparisons</i> , added the phrase "This is not your interest rate" to the description of <i>Annual Percentage Rate (APR)</i> .	To reduce the confusion between <i>APR</i> and interest rate.

Revision	Reason
Page 2, Design 1 and Design 2	
Moved the loan officer information to top of page 2 from page 1.	To reduce information on page 1
Added Creditor name to top	To ensure that consumers could match front and back offers if they came on two pages
Moved the two sentences about no obligation and shopping for best loan to bottom of page	To attract consumers' attention to this information
Inserted an amount to replace the "any" in this phrase: Down payment (minus any deposit)	To allow consumers to track the earnest money deposit
Page 2, Design 1	
Reorganized the order of the groupings	To match the revised logical flow of Design 2 (see below)
Shortened the line length and added two graphic tabs	To increase the visual ease of reading the disclosure and to mark the two large "chunks" of information more clearly
Changed the equation in <i>Cash Needed to Close</i> to have the words "Estimated Closing Costs"	To help consumers better see the relationship of <i>Estimated Closing Costs to Cash Needed to Close</i>
Page 2, Design 2	
Separated <i>Loan Fees</i> into <i>Origination Charges</i> and <i>Services You Cannot/Can Shop For</i>	To align Design 2 and Design 1 to increase visibility of the shopping category, and to allow for more detail in Design 2
Reorganized the information into two large chunks: <i>Costs and Taxes</i> and <i>Future Costs Paid at Closing</i>	To improve the logical flow of information
Separated out the <i>Estimated Closing Costs</i> and <i>Cash Needed to Close</i> into two sections	To give additional importance to the <i>Estimated Closing Costs</i> and to draw attention to the components of the <i>Cash Needed to Close</i>



Usability Testing Round 3 – Chicago, IL (August 2011)

Introduction

At the end of Round 2 (California), consumer participants could use page 1 to make sophisticated trade-offs, the overarching goal of the project. However, they had difficulty distinguishing between the monthly loan payment and the total monthly payment, important distinctions for shopping and affordability. For Round 3, we wanted to emphasize the monthly loan payment as the more reliable shopping and comparison factor and so we did not add the taxes and insurance—the estimates of which can vary between lenders—to the loan payment in the *Loan Terms* section. Instead, we introduced a new row in *Projected Payments* to show the *Estimated Taxes and Insurance* separately. Within that row, we also added a checkbox for *Escrow* and *No Escrow* and showed the total monthly payment in the explanation about escrow. For Round 3, we focused on whether these changes improved the performance for this detail. We continued to challenge consumer participants with more difficult and multi-factored trade-off choices with negative amortization and 7 year balloon loan products.

Round 2 (California) did not produce conclusive evidence of whether itemized or lump sum information resulted in better performance. Consumer participants in Round 2 talked more about shopping with Design 1 (lump sum approach), but they asked more questions and challenged more fees with Design 2 (itemized approach). Because having consumers shop for some providers and question fees were both positive results, we continued to test these two different ways of disclosing closing costs in Round 3. For Design 1 (lump sum), we modified page 2 to better match the page 1 design and to draw better attention to the services. We also renamed and regrouped items to provide a different logical

flow. For Design 2 (itemized), we used the same basic design as in Round 2, but also renamed and regrouped items to match the logical flow of Design 1. Both designs showed a calculation of *Cash Needed to Close*. For Round 3, we again focused on evidence to determine which approach resulted in better consumer participant performance.

For Round 3, we also began introducing certain statements required to be disclosed by the Truth in Lending Act (TILA).

Research Goals

For Round 3, overarching research goal was the same goal of comprehension, comparison, and choice as the testing in Baltimore and Los Angeles. We wanted to see if consumer participants would continue to select loans based on their reading of the disclosure information and on a rational personal calculus of what items were more important to them. More specific goals were to examine

- how consumer participants distinguished between the monthly loan payment and the total monthly payment
- how consumer participants performed with the lump sum and itemized approach on page 2
- how consumer participants understood certain statements required by TILA

Who We Tested

In Round 3, we conducted nine cognitive interviews (each lasting 90 minutes) in Chicago, Illinois:

- seven consumer participants and
- two industry participants, one a lender and one a broker.

Consumer participants represented a range of demographics, such as age, education, income, and experience with mortgages. See *Appendix A. Demographic Summary*.

We ceased further testing with Spanish-speaking consumers. Our testing in Round 1 (Maryland) and Round 2 (California) showed that these consumer participants performed quite similarly to the other consumer participants. Primarily, word choice and translation issues emerged from the testing. Because the disclosure language was still in flux, the team decided to address non-English language issues after this project was completed.

Interview Structure

In a change from prior testing, each consumer participant received two loans for the same type of product in either Design 1 or Design 2. Consumer participants compared the two Loan Estimates while thinking aloud. For the next section of the interview, consumer participants answered a series of objective questions about the loan details. After a break, each consumer participant received the same two loans in the alternate design. They then compared these two loans, focusing on page 2. As a final task, consumer participants received a stack of index cards with Truth in Lending statements and ranked the statements in terms of importance and usefulness for disclosure. Consumer participants also paraphrased each statement so we could assess comprehension.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw loan types and designs in a carefully considered rotation or order. Overall, consumer participants looked at one type of loan, but two different loan details in two designs for a total of four disclosures;

- first set included one of the designs for either: (a) a 7 year fixed rate loan with a balloon payment; or (b) a 1/1 or 2/1 adjustable rate 5 year fixed payment loan with negative amortization; and
- second set included the same loan product in the alternate design.

For the industry participants, one participant worked with the Design 1 Balloon and then the Design 2 Negative Amortization. The other worked with the Design 1 Negative Amortization and the Design 2 Balloon.

TABLE 11. Disclosure Rotations, Round 3

Participant	First Loan Set	Second Loan Set
IL-001	Ficus & Fir Design 1 Balloon	Pecan & Poplar Design 2 Balloon
IL-002	Balsam & Beech Design 1 Neg Am	Laurel & Lilac Design 2 Neg Am
IL-003	Pecan & Poplar Design 2 Balloon	Ficus & Fir Design 1 Balloon
IL-004	Laurel & Lilac Design 2 Neg Am	Balsam & Beech Design 1 Neg Am
IL-005	Ficus & Fir Design 1 Balloon	Pecan & Poplar Design 2 Balloon
IL-006	Balsam & Beech Design 1 Neg Am	Laurel & Lilac Design 2 Neg Am
IL-007	Laurel & Lilac Design 2 Neg Am	Balsam & Beech Design 1 Neg Am
IL-Lender-001	Ficus & Fir Design 1 Balloon	Laurel & Lilac Design 2 Neg Am
IL-Broker-002	Balsam & Beech Design 1 Neg Am	Pecan & Poplar Design 2 Balloon

What We Tested—Design

We kept the content consistent between the two designs to reduce variability. Page 1 of the two designs was identical. In Design 1, page 2 used a lump sum approach to closing costs. In Design 2, page 2 used an itemized approach.

Design 1, page 2 used a single large table with two tabbed sections—*Estimated Closing Costs* and *Cash Needed to Close*. Within *Estimated Closing Costs*, fees were sectioned into *Origination Charges*, *Services You Cannot Shop For*, *Services You Can Shop For*, *Taxes and Other Government Fees*, and *Lender Credits*. In *Services You Cannot Shop For*, fees were listed with a lump sum with no breakdown of fees. Some itemization was provided for services they could shop for. There were approximately 12 items listed out.

Design 2, page 2 used a two-column layout with several tabbed headings—*Costs and Taxes*, *Future Costs Paid at Closing*, *Total Estimated Closing Costs*, and *Cash Needed to Close*. *Costs and Taxes* included *Origination Charges*, *Services You Cannot Shop For*, *Services You Can Shop For*, and *Taxes and Other Government Fees*. *Future Costs Paid at Closing* included *Bills Due at Closing* and *Payment into Escrow for Future Bills*. Each subsection included itemized specific fees and costs with a total of approximately 26 items listed out.

What We Tested—Loan Type

We tested two designs and four loan products in each design:

- 1/1 ARM loan with negative amortization,
- 2/1 ARM loan with negative amortization,
- 7 year fixed rate loan with balloon payment, and
- 7 year fixed rate loan with balloon payment.

The total was eight disclosures. See Table 12. Loan Type, Round 3 for detailed differences across the loans.

TABLE 12. Loan Type, Round 3

Design 1 (lump sum page 2)		Design 2 (itemized page 2)	
Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Balsam Bank	Negative amortization 30 years 1/1 ARM @ 2% As high as 7% in year 10 Closing costs of \$7,415	Laurel Bank	Negative amortization 30 years 1/1 ARM @ 2% As high as 7% in year 10 Closing costs of \$7,415
Beech Bank	Negative amortization 30 years 2/1 ARM @ 2.75% As high as 8% in year 7 Closing costs of \$7,229	Lilac Bank	Negative amortization 30 years 2/1 ARM @ 2.75% As high as 8% in year 7 Closing costs of \$7,229
Ficus Bank	7 year Fixed @ 4.375% Balloon payment of \$149,349 Closing costs of \$6,151	Pecan Bank	7 year Fixed @ 4.375% Balloon payment of \$149,349 Closing costs of \$6,151
Fir Bank	7 year Fixed @ 4.625% Balloon payment of \$154,616 Closing costs of \$8,393	Poplar Bank	7 year Fixed @ 4.625% Balloon payment of \$154,616 Closing costs of \$8,393

See Appendix F. Loan Estimates for Round 3 – Chicago, IL for the disclosures that were tested in Round 3.

Overall Findings

Consumer participants could use the disclosure to choose between loans, make trade-offs, and express reasonable rationales for their choices

The disclosure continued to work very well in meeting the overarching research goals. Consumer participants could understand the costs and risks of the loan, could use the disclosure to choose between two similar loans of the same product type, and could express reasonable rationales for their choices. Round 3 consumer participants integrated the information on page 1—including interest rate, monthly payment, closing costs, cash needed to close, and *In 5 Years*—to make trade-offs and select a loan. Most consumer participants saw the trade-off of higher immediate closing costs and cash to close against greater savings over the life of the loan with a lower interest rate. Several consumer participants considered how long they would stay in the house as a part of their selection of the appropriate loan. Page 1 appears to provide the essential information for consumer participants to compare and choose loans.

“Automatically I’m leaning toward Ficus because of the lower monthly loan payment and a lower cost. You have maybe more closing cost, [but] the interest rate would translate into lower payments at the end. (IL-001)

If I would go with one it would probably be this one Balsam...just because it is a lower rate, the interest is lower, payments are lower, taxes are lower, but actually closing costs are higher. (IL-002)

Can go as high as 8% in Year 7 which may be why I’m seeing the variability and the change. One of the things that comes to my mind is if I’m going to be staying in that place in seven years. If I plan on staying at the place permanently I’d be more concerned about the longer-range payments or I’d be thinking to myself, “Get out of there by Year 7.” (IL-004)

I think for me, the most important would be this balloon—if that’s the type of loan that I want to get into because it is only temporary and sometimes I understand that if you are going to be buying to move within five years then this is fine. (IL-005)

Consumer participants distinguished between shopping and negotiation

When asked how they defined shopping and negotiation, consumer participants said they saw shopping as going to other vendors for a different Loan Estimate or for a particular service. They saw negotiation as talking to the lender or broker and asking for a reduction in fees. Based on these distinctions, consumer participants stated they would shop for items located on page 1, such as a lower interest rate, and tended to negotiate on fees listed in *Sections A and B*, and to shop for services in *Section C* on page 2.

Consumer participants often said they would not be interested in the loan types used in this round

Although consumer participants were engaged in the scenario, they often were not interested in either of the loans offered and were able to express their rationale for their choice.

“ The balloon is 7 years and I have to pay for the whole thing. That means that I would have to go for another loan, so that’s not what I really want. I wouldn’t go for that. (IL-005)

Can go as high as 7% in Year 10 and 8% in Year 7. Adjusts every year starting in Year 2. Adjusts every year in Year 3. I think the first thing that comes to my mind is...I’d be careful about something that’s going to be adjusting. (IL-004)

Page 1 gave consumer participants basic information about their loan and supported their decision-making

Page 1 continued to work well in terms of participant comprehension, in understanding the overall *Loan Terms*, *Projected Payments*, and *Comparisons* sections. The information helped consumer participants make decisions about the loan product and whether they would select it.

Top of Page/Loan Terms

The top of the page and *Loan Terms* section functioned well both in terms of usability and comprehension. Most consumer participants noticed the important date information and the expiration date at the top of page 1. If they didn’t mention it at first, they referred to it later. Consumer participants also noticed the basic details of the loan terms (both the amount and the additional bulleted cautions) in their first review of the disclosure. Consumer participants easily noticed increases in loan amount, interest rates, monthly loan payments, and balloon payments.

“ ...it says monthly loan payment, principal and interest, mortgage insurance, then it gives your monthly payment which is the principal and interest and then the mortgage but then it says it can go as high as \$1,372. (IL-002)

I would read the loan amount, then, of course, the interest rate, then one thing that scares me, it can go as high as 8% in seven years. That’s quite a jump from 2. (IL-007)

Now you’re getting loaned more money from the firm but interest rate is higher and the monthly payments will be higher... (IL-001)

What’s kind of nice is that it tells you right off the bat that it’s going to increase after closing, and it tells you that there’s no balloon payment so it kind of answers your questions, which is good. You don’t have to go looking for answers. (IL-006)

Projected Payments

The *Projected Payments* section functioned well with the exception of the *Taxes and Insurance* subsection. Consumer participants identified the *Cash Needed to Close* easily and saw that estimated *Closing Costs* was a part of that number. Consumer participants were able to use the *Projected Payments* section to identify the monthly payment after the first read-through.

Interestingly, consumer participants did not initially comment on the range of payments over time and that may be because the consumer participants did not see them, were distracted by the *Estimated Taxes and Insurance*, or the loan products were complicated. When asked what the *Projected Payments* table was trying to show them, consumer participants said it was showing them how their monthly payments would change over time.

“ The first box I will be paying \$719 and I know that I will be paying that for at least the first year based on what I read off the back, but I could be paying \$719 up to five years and then after the 5th year and on the 6th year I would be paying \$826 to \$1,027. So somewhere between there in the 7th year it would go up to that. (IL-002)

...one of the first things that comes to my mind is I want to keep a lower mortgage payment. But if the rate changes I don't want to get stuck paying more in the long run. Year 6, Year 7. It looks as though up to Year 6 the payments are lower. Around Year 7 is when things start changing. (IL-004)

It's trying to show me how the interest rate is adjusting for the years to come as according to your payment, according to what your monthly payment will be for the first five years, which is kind of nice because it's very clear what you can expect as far as your payment will be. (IL-006)

Consumer participants struggled with the taxes and insurance and did not understand to add them to the monthly payment to get a total monthly payment

The biggest issue in terms of comprehension and usability on page 1 of the disclosure was the *Estimated Taxes and Insurance* section within *Projected Payments*. In this round, this section did not convey the total monthly payment easily and sufficiently. Consumer participants tended to see the *Estimated Taxes and Insurance* information, the amount, and whether it was escrowed or not. However, they often did not understand that the amount needed to be added to the monthly loan payment to get the total monthly payment. Although the total monthly amount was embedded in that section, consumer participants tended to miss it initially, possibly because it was embedded too far in the text—appearing on the second line—and was second in the listed information. Although consumer participants tended to *know* that taxes and insurance would be included in a loan payment, they sometimes *assumed* the monthly loan payment already included the taxes and insurance. When specifically asked about taxes and insurance, some consumer participants tried to use page 2 to find information about taxes and insurance. Most consumer participants did not understand—based on the information included on the disclosure—that the taxes and insurance would change, though some knew based on previous knowledge and experience.

Consumer participants often didn't see that the taxes and insurance amount needed to be added to the monthly loan payment.

“ This says expect to pay a total of \$1,250 a month to start. I didn't see that. I don't understand that part. (IL-001)

I do not see this in here but from what I know from buying I would ask if they need to escrow my homeowner's insurance or if that is included in my mortgage or not because that is important to know if you are paying that plus your homeowner's insurance. (IL-002)

\$1,022 a month. I think that should be huge and in bold because you are thinking you are paying \$719 but then there is this part and I did not even read that part. Also it looks like your payments are going to be this big but you take on \$300. That is kind of a big jump. (IL-002)

Several consumer participants misinterpreted the information thinking the taxes and insurance amount was included in the *Monthly Loan Payment*.

“ Okay, if it's \$941 plus \$309, I didn't get that impression. The reading for me was that I was going to pay \$941 monthly loan payment. Now if in fact the tax and insurance is set aside, that wasn't my first understanding of this. So if I were to look at this and it says expect to pay a month to start...I am expecting to pay \$941. (IL-005)

I would have rather have seen a total number and have that broken down together so it said monthly payment, loan amount, taxes and insurance and then total...I didn't put them together. If those were over here and something came up that said monthly loan payment and then estimated taxes and then total monthly payment I would have gotten it. But these seem like two different things. I thought that \$1,250 was something totally different. (IL-003)

Some consumer participants knew that taxes and insurance can increase or decrease each year but knew this fact on their own, not based on the information included on the disclosure.

“ I don't understand why it says you pay \$1,250 a month to start...The only thing I can think it means is sometimes they ask you to pay a certain amount of taxes and whatever up front. So that's the only thing I would assume but I'd have to ask. (IL-003)

Taxes and insurance—it doesn't even have it. I would assume it would have to adjust according to what the insurance and taxes will be on the property which I don't know if they can really tell that yet. (IL-006)

Specific Findings

Adjustable Interest Rate Information (AIR)

Consumer participants could read the information in the *AIR* and *Adjustable Payment Information (API)* tables and understand it. However, they could not quite integrate the information in both tables and use it to understand the changes to payments on page 1.

A few consumer participants were confused by some terminology, such as the negative amortization, LIBOR, margin, and index.

“ Negative amortization—I don’t know what that mean...I think my biggest question with this—well, I should probably read this. Adjustable interest rate information. I don’t know what this means—index plus margin LIBOR. I don’t know what that means. And then again I wouldn’t understand what index plus margin—I’m not quite sure what that means. (IL-004)

I would definitely ask my lawyer what these things mean, like what is the amortization and then those would probably be my number one concerns. (IL-002)

Comparisons

The *Comparisons* section continued to function well overall. While consumer participants could use the *In 5 Years* section effectively, they continued to have trouble understanding *APR* and how to use *APR* to compare across loans. It was not clear how well consumer participants used *Estimated Closing Costs* because this section was not cited often by consumer participants as a factor in their decision making.

In 5 Years

In 5 Years was effective in helping consumer participants to compare and choose between the two loan products.

“ In five years although I’m going to pay less money but the principal I would have paid off is almost the same. So that would be what I would be comparing here. (IL-003)

So in five years I’m paying off more of the principal on the Laurel and I have a lower interest rate. (IL-004)

It looks like this one they’re paying more towards the principal rather than interest. (IL-006)

Annual Percentage Rate (APR)

In Round 3, the statement, “This is not your interest rate” was added to the description of the *APR*, to reduce confusion between the interest rate and the *APR*. While most consumer participants understood from this statement that the interest rate and *APR* were different and separate items, they still had trouble understanding what *APR* means, how it relates to the interest rate, and how it is useful as a comparison. In addition, when consumer participants looked specifically at that section, they sometimes still read the *APR* as the interest rate. However, when asked what the interest rate was, they tended to give the correct answer.

“ There’s a monthly interest rate and then when they compound that it comes up to a different number. They’re trying to disclose that. I don’t know how to calculate it. That’s what I wouldn’t understand. But I’d ask somebody to explain it to me. (IL-003)

This rate expresses your cost over 30 years. That phrase always confuses me—annual percentage rate. I confuse that with the interest rate. So it will say this is not your interest rate but it doesn’t tell me exactly what it is, especially your cost over 30 years. Cost of what? That I think could be clearer. (IL-004)

It says, “This is not your interest rate. This rate expresses your cost over 30 years.” So I kind of would like a breakdown of that maybe and see how that rate adjusts itself. (IL-006)

Truth in Lending

Consumer participants looked at eight Truth in Lending statements and were asked how important the statements were to know. Consumer participants then paraphrased each statement in their own words. Finally, consumer participants sorted the statements into two piles: (1) statements important to making a decision on the loan, that should be included on the disclosure, and (2) statements not as important to making a decision that could be left off the disclosure. See tabulated results in Table 13. Truth in Lending Statements.

In general, consumer participants regarded all of the statements as important but when asked to sort them into those that should be included on the disclosure, most consumer participants stated they wanted the following statements included:

- “If your payment is more than 15 days late, you will be charged a late fee of \$50.”
- “See your contract documents for information on the lender’s rights if you fail to make your payments, other ways you may default on your loan, when your lender can require repayment of the loan before the scheduled date, and the loan’s prepayment penalties or rebates.”
- “There is no guarantee that you will be able to refinance to lower your rates and payments.”

Most consumer participants said they did not understand the statement about “You are giving a security interest in the property” because they did not know what “security interest” meant.

“ It’s confusing. The only thing I can say is I’m making a deposit. Otherwise I’m confused by security interest. (IL-003)

A security interest—I don’t know what that means. You are giving a security interest. I don’t know what that means. (IL-004)

You are giving a security interest, I’m not receiving it, and who am I giving it to? (IL-005)

TABLE 13. Truth in Lending Statements, Round 3

Truth in Lending Statement	Important to Know		Include On Disclosure	
	Consumer (7)	Industry (2)	Consumer (7)	Industry (2)
You are giving a security interest in the property located at 456 Avenue A, Anytown, IL 12345.	5	1	2	0
You may lose your home if you do not make all of your payments.	6	2	4	0
If your payment is more than 15 days late, you will be charged a late fee of \$50.	7	2	6	1
See your contract documents for information on the lender's rights if you fail to make your payments, other ways you may default on the loan, when your lender can require repayment of the loan before the scheduled date, and the loan's prepayment penalties or rebates.	6	2	5	1
If you sell or transfer your home to another person, we ___ will under certain conditions ___ will not allow the person to assume this loan on the original terms.	7	1	3	1
If you borrow more than your home is worth, interest on the amount above the home's fair market value may not be deductible for federal income tax purposes. Consult a tax advisor to find out whether the interest you pay is deductible.	3	1	3	0
You are not required to accept this loan because you have received these disclosures or signed a loan application.	4	1	4	1
There is no guarantee that you will be able to refinance to lower your rate and payments.	6	0	5	0

Design Findings

Consumer participants better recognized the ability to shop and negotiate using Design 2

The biggest differences between the two designs centered on shopping performance and behavior. Design 2 seemed to stimulate consumer participants to ask questions that showed analysis, evaluation, and synthesis, challenging the services shown as well as the costs that were provided. Consumer participants thought that more of the services or fees could be negotiated and shopped for in Design 2 when provided with additional breakdowns of costs and fees. Design 2 worked better for activating consumer participants to say they would shop and negotiate on fees in order to lower closing costs. The additional detail allowed consumer participants to question and challenge more of the fees, such as documentation or verification fees, ultimately enhancing shopping behavior.

Negotiating

In Design 2, consumer participants used the page 2 details to determine what they could negotiate.

“ [Design 2] has more of a breakdown and you can see what you are actually paying for and then maybe some of those items could be negotiated in the original originating charges and the title and all that other the pest and the attorney’s fees. Maybe if possible, you could negotiate those. (IL-006)

Yes. Anything that’s a fee—underwriting fee which is \$800, tax servicing fee is \$75—I would definitely question if those could be reduced. (IL-007)

[Design 2] just spells out more and then here also it tells you, gives you a heads up of what you can negotiate...Right here [in section A] you can think about whether they can waive some of those fees since it’s administrative fees where here [Design 1] it’s just origination services. Before I did have a question on origination services but here [Design 2] it’s like “ok, they spell out what can be negotiated on that.” (IL-001)

Challenging fees

In Design 2, consumer participants used the page 2 details to challenge some of the fees.

“ I would like detail on that, what is points, how does it work, and what does it mean? I would like some sort of detail on what a point means, and then probably administration fee, what is that? Document preparation fee, what is that about? Why is an appraiser review fee not part of the appraiser fee? Again I would bring up the pest inspection fee. (IL-002)

Preparation fee is \$35, underwriting fee is \$300, tax service—I guess one of the things I would wonder is what is the difference between all of the fees. I would think the documentation preparation fee—it would be bundled somehow. So that would be something I’d be concerned about...Like a preparation fee—in my mind a preparation

fee would be including the administration—like what is administration fee, how is that different from preparing the documents. Or underwriting. In my mind underwriting means preparation of documents. So how is underwriting different from document preparation? Verification fee—I guess for clarification I'd wonder verifying maybe the data of what's included in it or my information. So I would wonder where all of those fees kind of accumulated from or broken down. (IL-004)

Noting differences

In Design 2, consumer participants noticed differences on page 2 in both the costs of services and the services listed between Loan Estimates. They felt the differences made it more difficult to compare the loans and would have preferred consistency.

“ And so I would basically go down and start comparing them. They don't really line up. It says property taxes, services to you—some of them they're not—they don't line up the same. If I were looking at something and trying to compare if they all were consistent where they had the information it would be easier to go—okay, they're charging me \$200 more than they are here. Services you can shop for. These line up a little bit better but they're still not in the same order. (IL-003)

I would wonder how the two different loans might have differences in how they define what the fees are. Services you cannot shop for—again this always kind of confuses me. Credit report fee for one is \$30 and for the other is \$5. How is there such a big difference? If I had a credit report done at one will that suffice for the other lender? I think I'd be wondering about that. So there's a lot of fees I guess is my first thought...Again I would want to know how the difference is made between the \$950 versus the \$1,306. Is it the lender—something they've designated and how would that be comparable and how does it impact my final closing costs? (IL-004)

Consumer participants saw shopping as limited when using Design 1

Consumer participants using Design 1 tended to only name services listed in Section C. Services You Can Shop For. When asked to identify what they could shop for, they tended to read back items in the listing under Section C. Services You Can Shop For.

“ I would say the only things that you can shop for would be your attorney and your homeowner's insurance, and your inspector for home inspection...I was under the understanding that the lender picks who they want to survey and I never really shopped that, but if I knew I could, I would shop for it. (IL-001)

[Design 1] You can't shop really for any of that unless you just shop for attorney fees. But other than that you can shop for the pest inspection maybe and save a few dollars there. (IL-006)

Yes. The title service and lender/title insurance, the survey fee, the pest inspection, the borrower's attorney fee. (IL-007)

Consumer participants strongly preferred Design 2

Overall, consumer participants preferred the Design 2 level of detail. Nearly all consumer participants said they ultimately preferred Design 2 because of the additional level of detail, and they felt the higher level of itemization indicated a higher level of disclosure. Some consumer participants even said they would feel more comfortable with the lender using Design 2 because of the greater disclosure of fees.

“ I just feel this one has things you can check for and it gives you more detail...It gives you more of a specific place that your money is going to, if you look at something and it says administration fee \$500, you ask what does that entail and here it breaks it down more where every dollar is going. (IL-002)

I rated [Design 2] higher because it gives more information. Not that you need all that information but I think some people would prefer to have it and it's nice to be able to look back and say oh that's...and how much is that and you can find it right away. (IL-006)

Consumer participants who saw Design 1 first commented positively on it, until they were shown Design 2, at which point they thought Design 2 was better. Overall, 89% of consumer participants preferred Design 2 and only 11% preferred Design 1.

TABLE 14. Design Preferences, Round 3

Participants	Design 1	Design 2
Consumer participants	0	7
Lender/Broker	1	1
Total Percentage	11%	89%

Consumer participants continued to have problems understanding the deposit and down payment

Consumer participants had difficulty understanding where their \$19,000 down payment that included a \$9,000 deposit already paid to the seller was represented on page 2.

“ It said down payment minus the \$9,000 deposit so it is here but it is not listed here but it says it and I assume you put money down. It should be listed but I do not see it listed. (IL-002)

I'm marginally confused. It says adjustments and when I think of adjustments I guess most of the time I think of—yes, they're minuses and I guess they could be pluses but the first thing in my mind is that they're minuses. I see this adjustment of \$10,000 and I've got to think—okay, that's my \$10,000 because it says minus the \$9,000 deposit. (IL-003)

Yeah I thought that they would have both the already paid deposits and the down payment. I don't see that. I see the deposit of \$9,000 so down payment minus \$9,000 deposit that's what I don't understand because it's supposed to be \$19,000. (IL-006)

Industry Findings

Industry participants said the disclosures were easy to read and highlighted important information

As in previous rounds, industry participants thought the designs worked well and would help consumers compare across different and similar loan options. Without prompting, both said that these disclosures were better than the current disclosures and would be easier to use when explaining loans to consumer, which in turn, they said, would make implementation of these disclosure easy for lenders and brokers. Both the lender and broker said they didn't foresee much difficulty in implementing the new disclosures.

“ *I think overall I like this particular form [Design 1]. Seems to be pretty thorough and breaks down nicely so that the lender can explain to the customer everything. I think this is much easier and much more concise than those [existing] documents. The Good Faith Estimate as it's now constructed I think is extremely confusing. And was not well thought out when it was implemented. I also find this as a good replacement to the Truth in Lending because the Truth in Lending has figures that are very hard to understand, very hard to grasp in terms of the items that are listed on the top—the finance charge and what the total payments are over the course of 30 years, when probably 98% of loans don't go past 10 years. (IL-Lender-001)*

I think this [Design 1] would be a great form to replace both of those and make things a lot easier. [With Design 1] it would be easier to go through and explain what this form means and what information it's conveying compared to the other forms. I think the other forms, there's a lot of unnecessary wording and some of the breakdowns particularly on the Good Faith Estimate need further explanation. This one I don't think does. (IL-Lender-001)

[Design 2 is] Very simple to read, the amount of cash-to-close that they need, what payment is expected for the first seven years, and the final payment, very, very easy to read this. [Design 2 is] a lot less pages [than current disclosures]. It's all, essentially, two pages versus...about like five or six. So it's probably a little easier and it's a lot shorter...I'm still going to go over it in detail. It just would be a little less time-consuming going over this page [in Design 2] as opposed to what we are doing now. (IL-Broker-002)

I don't see any difficulty in implementing this disclosure [Design 2] whatsoever. (IL-Broker-002)

The industry participants disagreed on design preference

Interestingly, the two industry participants disagreed about the level of detail on page 2 needed for the consumer. The lender strongly preferred Design 1, page 2 for its simplicity and consolidation of fees. The broker strongly preferred Design 2, page 2 for its breakdown and itemization of fees, stating that consumers want detail. While the lender preferred Design 1 overall, he did suggest adding more cost breakdown for some of the sections, to create a hybrid disclosure that combines aspects of Designs 1 and 2. The industry participants also disagreed about whether consumers want and need additional detail about fees. The lender felt that itemization of many fees is potentially overwhelming and does not aid the consumer in making an informed decision. Additionally, this lender reported that in his experience, consumers never ask about specific fees or want more detail. The broker, on the other hand, felt that detail is necessary to help consumers understand the total costs and be more informed about the loan.

“ I think other than points and origination fee everything else can be lumped in as one... well, total lender charges would make it easier than breaking down underwriting, tax service and administration, verification. Because ultimately some lenders charge certain things and other lenders charge other things. Bottom line is what are the total lender fees you're paying?...This format [Design 2] might scare a consumer if they see 50 different charges even though a lot of them are smaller. It might make someone shy away from a loan just because it was intimidating. (IL-Lender-001)

[With Design 2] I would have to spend more time giving summary total figures. I'd have to explain what each cost meant and why it was being charged and why one lender charges certain fees and other lender doesn't and vice versa. I think you spend more time trying to explain to a customer who sees all this broken down information—spending a lot of time explaining what each one was when it wasn't necessarily, you know, material information to help them make a better informed decision. (IL-Lender-001)

I, personally, liked [Design 2] better. I like that it broke down this B section, the appraisal cost, credit report, other...it wasn't just the total \$689, it kind of broke it down to the fees, and more about just showing, as much as possible, as far as like what the fees are rather than just lumping everything together. (IL-Broker-002)

If it's a significant fee such as origination, \$2,600, it's like, "Whoa, whoa, whoa, hold on a second. How did we come up with this number?"...here [Design 2] it's broken down, they're not going to be as confused or have many questions...I'm kind of struggling [with Design 1]; it's because a lot of pieces just give you the total amounts, they don't tell me how we came up with those. I would, personally, if I was closing a deal, I would like to see how we came up with these numbers. (IL-Broker-002)

Both industry participants wanted additional warnings for negative amortization loans

In this round of testing, one of the loan products was a negative amortization loan product. The industry participants had specific suggestions about how to handle disclosing the details of such a loan. One suggestion was to add a warning that says “For negative amortization loans, if you keep your payments the same for the first five years, your balance will increase.” Another suggestion was to add an example or a more detailed scenario of what would happen with a negative amortization loan. Both industry participants believed that the payment could increase within the first five years. Apparently, they did not understand from the *Adjustable Payment Information* table that the payment was fixed for the first five years.

“It’s not explaining that when the interest rate goes up the payment needs to increase in order to at least maintain if not continue to lower the outstanding loan balance. When the interest rate goes up the payment does—that’s where the gap falls in. And a borrower may not realize—it’s not explained at all clearly. I think there needs to be something on here that maybe says if your rate goes to this, your payment needs to become this to avoid your loan balance from increasing. (IL-Lender-001)

Maybe even with the negative amortization loan, maybe an addendum added on that details what the potential pitfalls are and gives an example or maybe two examples of if you made the minimum payment over five years and if you, you know, what payment is needed to have the balance stay the same. You cover the interest. And what payment needs to continue to be made to maintain the 30 year, to maintain the typical payment paid over 30 years. (IL-Lender-001)

They [consumer participants] need to understand that their payment is going to change beginning the 25th month. It should be probably a little bit more or of a...I don’t know, it’s kind of small here in the corner [bottom right of page 2], and it’s a little...they may not even realize that their payment is changing. So that would be...I would make sure this is more understandable. (IL-Broker-002)

On the respective forms you’ve got the projected payments are broken out for five years, the first section. And I think that’s probably very misleading if the rate can change as quickly. It shows how high it can go after a certain period, the maximum. I don’t know how high it can go in the first change year and subsequent years. I’m guessing Years 1 to 5 break down is probably misleading and it’s not necessarily accurate. (IL-Lender-001)

Truth in Lending

The industry participants received the Truth in Lending statements. We asked them which statements were important for consumers to know, which statements consumers might have trouble understanding, and which statements were important to consumers making a decision on the loan and so should be included on the disclosure. Both believed that all were important but that the statement, “You may lose your home if you do not make all your payments,” might be common sense. They said the statement, “You are giving a security interest in the property...,” might be confusing because consumers might not understand the term “security interest.” (Consumer participant findings supported their opinion.) They said the statement, “See your contract documents for information on the lender’s rights if you fail to make your payments...” was very long and might be confusing for that reason. Additionally, they said that the statement, “If you borrow more than your home is worth, interest on the amount above the home’s fair market value may not be deductible...,” might not be relevant in today’s market. Statements they suggested including on the disclosure are:

- “If your payment is more than 15 days late, you will be charged a late fee of \$50.”
- “See your contract documents for information on the lender’s rights if you fail to make your payments, other ways you may default on your loan, when your lender can require repayment of the loan before the scheduled date, and the loan’s prepayment penalties or rebates.”
- “If you sell or transfer your home to another person, we _____ will under certain conditions _____ will not allow the person to assume this loan on the original terms.”
- “You are not required to accept this loan because you have received these disclosures or signed a loan application.”

Conclusion

Overall, the disclosure continued to meet the overarching goal of comprehension, comparison, and choice. Consumer participants could recognize important elements of the loan, make trade-offs, and select an appropriate loan. They continued to weigh differences in loan terms, payments, and the closing costs. And, though they used both pages of the disclosure, they tended to focus on page 1 when making their decisions about which loans to choose. Despite the disclosure working well as a whole, several issues still needed to be addressed. In particular, the section about escrow/taxes and insurance continued to be missed or misinterpreted. Additionally, the *Projected Payments* section needed further refinement to help consumer participants better see changes over time.

In this round, there was again a clear preference for Design 2 as well as performance data indicating that Design 2 helped consumer participants question, challenge, negotiate, and shop on costs and fees.

Revisions to Prototype, Round 3

Based on the results of Round 3, we created two designs for page 1 and page 2 to explore options for the presentation of *Cash to Close* and *Closing Costs* on page 1 and the presentation of the closing cost information on page 2. The table below summarizes the significant changes we made for Round 4.

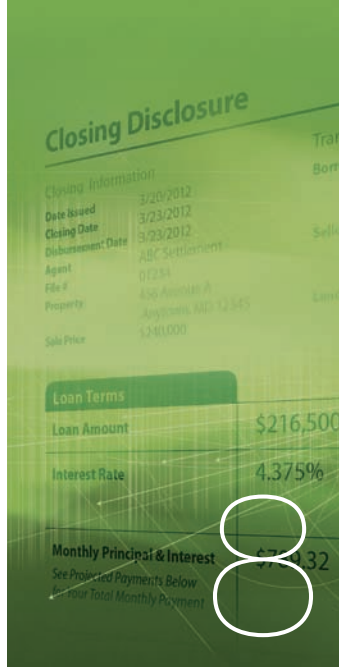
TABLE 15. Revisions to Prototype, Round 3

Revision	Reason
Overall	
Added a page 3	To add the required Truth in Lending statements and to allow for the inclusion of a signature line
Moved agent and creditor information to page 3 from page 1	To emphasize this information by giving it more room on the page and to include it on the page that consumers will sign
Created Design 2 for page 1 by moving Cash to Close and Settlement Costs to Key Terms and out of Projected Payments	To emphasize the two items and to include them as part of the Key Loan information
Created Design 2 for page 2	To use a new graphic approach that emphasizes the calculation character of the information on page 2
Top Portion, page 1, Design 1 and Design 2	
Moved agent ID information to page 3	To emphasize this information by giving it more room on the page and to include it on the page that consumers will sign
Key Terms, page 1, Design 1	
Changed section title to Key Terms from Loan Terms	To emphasize that the terms included in this section are key to the transaction as opposed to merely terms of the loan; for Design 2, this change also allowed including Cash to Close and Settlement Costs in this section, because they are key terms, but not loan terms
Changed first question to read: "Can this amount increase after closing?"	To emphasize the risk (which includes higher interest rates or loan payments) to consumers, and allow for the question to be added for closing costs that addresses changes before closing
Removed "estimate" from the Taxes and Insurance item in Projected Payments	To reduce words. Taxes and Insurance are identified as "estimated" in Projected Payments.
Added "in year X" to statement about how high the monthly loan payment can be	To allow consumers to know when the maximum payment will be reached and see the relationship between interest rate and monthly loan payment

Revision	Reason
Key Terms, page 1, Design 2	
Added Cash to Close and Settlement Costs sections	To increase visibility and attention to these costs
Added new question "Can this amount change before closing?" to section above the Cash to Close and Settlement Costs	To make a parallel question for changes that could occur before closing to Cash to Close and Settlement Costs and allow for a reference to page 2
Changed Closing Costs to Settlement Costs	To use a term that may be more universally recognized
Projected Payments, page 1	
Added cents to monthly loan payment in the Year 1 box	To connect this payment more easily to the amount listed in the monthly loan payment in Key Terms
Taxes and Insurance, page 1	
Used word "Plus" in front of Estimated Taxes and Insurance	To emphasize that consumers would have this additional amount to pay each month or yearly
Put Plus Taxes and Insurance with "Estimated \$xxx a month to start" in gray box	To emphasize the fact that the taxes and insurance were not fixed and were separate costs in addition to the monthly loan payment
Rewrote language in the Escrow line to move the total monthly payment earlier in the line and showed the calculation at the end of the line	To emphasize the total monthly payment, and to bring out the connection to the monthly loan payment amount and the taxes and insurance amount
Comparisons, page 1	
Added Total Interest Percentage (TIP) concept and definition	To add a required Dodd-Frank Act element
Footnote, page 1	
Changed language to read "Visit www.consumerfinance.gov/futureurl for general information and tools"	To prevent consumers from thinking that they should call CFPB for information about the specific loan
Overall, page 2, Design 1	
Removed lines within each section except for Calculation	To give page a cleaner, less cluttered look
Added subtotal to each section	To encourage consumers to focus on the subtotal rather than on individual item costs
Removed Taxes and Other Government Fees to column 2	To allow for column 1 to be the calculation for Settlement Costs
Changed the title of column 1 to Estimating Settlement Costs	To emphasize the calculation aspect of all of page 2
Changed the title of column 2 to "Calculating Cash to Close"	To emphasize the calculation aspect of all of page 2

Revision	Reason
Added tolerance language to Sections A. Origination Charges, B. Services You Cannot Shop For, and C. Services You Can Shop For	To test disclosure of RESPA tolerance requirements
Limited the space allowed for listing of specific charges in Sections A. Origination Charges, B. Services You Cannot Shop For, and D. Taxes and Government Fees	To limit the number of items that can be itemized
Section A, Origination Charges, Design 1	
Added " __Points for the Interest Rate"	To clarify the types of points listed in plain language
Section C, Services You Can Shop For, Design 1	
Added additional space for items in this section	To allow for the range of items that consumers can shop for
Section E, Prepaids and Escrow, Design 1	
Reordered calculation to be "dollar amount per unit of time for the period of time," such as "\$86.72 per month for 3 months"	To make calculations for prepaids and escrow parallel
Cash to Close, Design 1	
Changed name of section to Calculation	To emphasize that this page is about the calculation of settlement costs and Cash to Close
Made separate line for Deposit	To make this number more prominent for consumers
Added line items for Cash to Borrower, Seller Credits, Other Credits and Adjustments	To ensure that potential items are included
Overall, page 2, Design 2	
Changed design to five column design to add boxed subtotals for each section and totals for Estimated Settlement Costs and Estimated Cash to Close	To emphasize the calculation of page 2
Added "+" and "=" signs into design	To emphasize the calculation of page 2
Changed individual sections to match Design 1 section content and spacing changes	To match Design 1
Shaded the Estimated Settlement Costs a slightly lighter color than the Estimated Cash to Close	To differentiate the two amounts to show that Estimated Settlement Costs is a part of Estimated Cash to Close

Revision	Reason
Used the word "Estimated" in front of Settlement Costs and Cash to Close	To emphasize that these numbers are less often fixed than consumers expect
Moved Adjustable Interest Rate Information table to left side of page	To balance page visually
Truth in Lending Statements, page 3	
Labeled statements as "Loan Information," "Other Information," and "Verify Receipt"	To group information with an advance organizer to simplify processing for consumers
Added headings to label each statement	To provide another level of advance organizer to simplify processing for consumers
Edited and added graphic elements to statements	To ease the reading difficulty linguistically and graphically
Added signature section	To meet industry request and include required Truth in Lending statement



Usability Testing Round 4 – Springfield, MA (September 2011)

Introduction

In Round 3 (Illinois), consumer participants continued to use page 1 to make sophisticated trade-offs. However, they also continued to have problems distinguishing between monthly loan payments and total monthly payment. For Round 4, we added a reference to *Taxes and Insurance* (see below) in *Monthly Loan Payment* to strengthen the connection to *Projected Payments*. In Design 1, within *Projected Payments*, we separated the *Taxes and Insurance* from the *Escrow* information. The *Escrow* information included the *Total Monthly Payment* in a larger font to draw attention to it. In Design 2, we used the same information and the same approach, but did not use two separated boxes. As in the previous round, we focused on whether these changes improved the performance. We continued to challenge consumers with more difficult and multi-factored trade-offs with 30 year adjustable rate loans and 15 year loans with monthly and bi-weekly payments. We also included variations in escrow.

Round 3 (Illinois) results indicated that consumer participants performed better with an itemized approach to page 2; however, we wanted to explore if a more graphic approach would further improve consumers' performance. For Round 4, we refined the itemized approach with Design 1 and experimented with a new graphic design for Design 2. Both designs had similar levels of itemization. In Design 1, we moved to lump sums for certain closing costs and slightly rearranged the subsections to test a different organization of closing costs. In addition, new headings emphasized the actions: *Estimating Settlement Costs* and *Calculating Cash to Close*. In Design 2, we used a graphic approach that emphasized the calculation of the closing costs details, calling the entire page

Calculating Your Estimated Cash to Close. We also used subtotals for *Prepays* and *Escrow*. To further emphasize the calculation, we used addition symbols between sections and showed subtotals in boxes. To draw better attention to the sections and calculations, we replicated the reverse tabs of page 1 with tabs for the primary divisions, such as *A. Origination Charges* or *C. Services You Can Shop For*. In addition, we added large boxes for the total of *Estimated Settlement Costs* and the *Estimated Cash to Close*. With the addition of an *Adjustments* section, we eliminated the separate *Calculation* table from Design 1.

For page 2 of both designs, we also added plain language statements describing limits on increases of closing cost estimates (tolerances), which are currently in the regulations implementing the Real Estate Settlement Procedures Act (RESPA).

For Round 4, we formatted additional disclosures into a single third page. We continued to test statements required to be disclosed by the Truth in Lending Act (TILA) and added certain Dodd-Frank Act disclosures and disclosures under other statutes that could potentially be integrated into this Loan Estimate.

Research Goals

The overarching research goals for Round 4 were the same as for Rounds 1 through 3: comprehension, comparison, and choice. We wanted to see if consumer participants in this round would continue to select the loans based on their reading of the disclosure information and their personal calculus of what items were more important to them. As in Round 3 (Illinois), our more specific goals were to examine

- how consumers distinguished between the monthly loan payment and the total monthly payment
- how consumers performed with the itemized and the combined approach on page 2
- how well consumer participants understood the TILA, Dodd-Frank Act, and other disclosure statements
- how consumer participants understood the tolerance language

Who We Tested

In Round 4, we conducted 10 cognitive interviews (each lasting 90 minutes) in Springfield, Massachusetts:

- eight consumer participants and
- two industry participants, one lender and one broker.

Consumer participants represented a range of age, gender, income, and education as well as a range of experience with mortgage loans. See *Appendix A. Demographic Summary*.

Interview Structure

In Round 4, each consumer participant received a single loan in one design and performed a think aloud. In Task 2, consumer participants compared two loans in the same design but a different product from Task 1. After a short break, in Task 3, consumer participants compared the same loan product

they saw in Task 1 and a similar product in the alternate design. As a final task, consumer participants received a potential page 3 containing required Truth in Lending and Dodd-Frank Act disclosures, an Equal Credit Opportunity Act (ECOA) appraisal notice, and a RESPA servicing disclosure. Consumer participants ranked the statements according to whether they were critical to receive while shopping for a loan and paraphrased each statement so that we could assess comprehension.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw loan types and designs in a carefully considered rotation or order. Overall, consumer participants looked at three loans in one design and one loan in the alternate design for a total of four disclosures.

Of the lenders/brokers, one participant worked with four loans in Design 1 and one loan in Design 2. The other worked with four loans in Design 2 and one loan in Design 1.

TABLE 16. Disclosure Rotations, Round 4

Participant	Task 1: One Loan	Task 2: Two Loans (same design; different product)	Task 3: Comparison (same product as first loan; alternate design)	
MA-001	Laurel Design 2	Pecan & Poplar Design 2	Laurel Design 2	Balsam Design 1
MA-002	Lilac Design 2	Pecan & Poplar Design 2	Lilac Design 2	Beech Design 1
MA-003	Pecan Design 2	Laurel & Lilac Design 2	Pecan Design 2	Ficus Design 1
MA-004	Poplar Design 2	Laurel & Lilac Design 2	Poplar Design 2	Fir Design 1
MA-005	Balsam Design 1	Ficus & Fir Design 1	Balsam Design 1	Laurel Design 2
MA-006	Beech Design 1	Ficus & Fir Design 1	Beech Design 1	Lilac Design 2
MA-007	Ficus Design 1	Balsam & Beech Design 1	Ficus Design 1	Pecan Design 2
MA-008	Fir Design 1	Balsam & Beech Design 1	Fir Design 1	Poplar Design 2
MA-Lender-001	Balsam & Beech Design 1	Ficus & Fir Design 1	Balsam Design 1	Laurel Design 2
MA-Broker-002	Laurel & Lilac Design 2	Pecan & Poplar Design 2	Beech Design 1	Lilac Design 2

What We Tested—Design

Page 1 of both designs had slight differences in how the escrow was presented in *Projected Payments*. In addition, Design 1 placed *Estimated Cash to Close* and *Estimated Settlement Costs* in *Projected Payments*, while Design 2 placed these two items in *Key Terms*. Page 2 of each design used different layouts for closing costs. In Design 1, page 2 used a layout similar to the itemized approach from Round 3. Design 2 used a graphic layout. The number of items was reduced to about 23 for both designs.

Design 1, page 2 used a similar design as the itemized design from Round 3 (which was Design 2 in Round 3) with two main headings, *Estimating Settlement Costs* and *Calculating Cash to Close*.

Design 2, page 2 used a highly graphic design that highlighted the key components of the closing costs. It also placed subtotals and totals in boxes to draw attention to the totals for *Estimated Settlement Costs* and *Estimated Cash to Close*.

What We Tested—Loan Type

We tested two designs and four loan products in each design:

- 7/1 ARM loan,
- 3/3 ARM loan,
- 15 year fixed rate loan with monthly payments, and
- 15 year fixed rate loan with bi-weekly payments.

The total was eight disclosures. In this round, all loans were refinance loans. See Table 17. Loan Type, Round 4 for detailed differences across the loans.

TABLE 17. Loan Type, Round 4

Design 1 (itemized page 2)		Design 2 (graphic page 2)	
Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Balsam Bank	30 year 7/1 ARM @ 3.75% As high as 9% in year 10 Closing costs of \$3,540	Laurel Bank	30 year 7/1 ARM @ 3.75% As high as 9% in year 10 Closing costs of \$3,540
Beech Bank	30 year 3/3 ARM @ 3.375% As high as 9% in year 10 Closing costs of \$4,414	Lilac Bank	30 year 3/3 ARM @ 3.375% As high as 9% in year 10 Closing costs of \$4,414
Ficus Bank	15 year Fixed @ 3.375% Closing costs of \$3,647 Escrow	Pecan Bank	15 year Fixed @ 3.375% Closing costs of \$3,647 Escrow
Fir Bank	15 year Fixed @ 3.625% Bi-weekly payments Closing costs of \$0 No escrow Lender credit of closing costs	Poplar Bank	15 year Fixed @ 3.625% Bi-weekly payments Closing costs of \$0 No escrow Lender credit of closing costs

See Appendix G. Loan Estimates for Round 4 – Springfield, MA for the disclosures that were tested in Round 4.

Overall Findings

Consumers integrated the information on page 1 to make complex trade-offs

Consumers continued to use the key elements of the loan and integrated the information on page 1 to make complex trade-offs in choosing loans. They used various combinations of the key elements, including the initial interest rate period, frequency of interest rate adjustments, and closing costs, and referenced their personal situations.

Interest Rate and Type of Loan

“It is comparable right now to my current loan, but I just do not know if I could go with an adjustable interest rate because of the possible jump. Yes, \$647.10 for seven years sounds ok, but then again you have to read the fine print and it is \$913.00 a month. Is it worth doing? Something I consider is...it could be a decent adjustable rate, but then after Year 8 it could possibly jump. And obviously I would want to refinance to the best deal, but obviously after Year 7 I would probably go look to refinance again if interest rates are low. (MA-001)

If I had to choose between the two, I would probably choose Laurel and for the simple fact that I’m locked in a variable rate at 3.75% for seven years as opposed to Lilac because it’s only for three years. Their maximum [Laurel] as far as going up, is no more than \$884 in

accordance to this year. Their maximum [Lilac] is going up to \$903 in the Years 10 through 30. I'd figure if I lock in here at least for the first seven years, I'm paying \$647 a year. If something else came along within that first seven years, I would always go back and refinance for something that's fixed and get a better rate. (MA-003)

Closing Costs

“ You would have to think about closing costs as a one-time fee, and that is great. It really is. But I think life of the loan. This is more attractive value for me personally. The life of the loan is the same and, yes, the interest rate is lower. So in the long run I am paying less on this loan than I am on this loan [Pecan] even with a \$5,000 closing costs. (MA-001)

I would choose them [Poplar] because of the closing cost...and right now, leaving it the way that it is, you're trying to save money but you're also trying to secure your future, as what most homeowners are doing. (MA-002)

So the bottom line is you have to make this decision on...the amount of money it will cost you to take a loan out: Are you in a position where you want to pay more money, \$5,500 up front [Pecan] or the \$633 [Poplar] and you're going to sacrifice a little bit on interest rate, but the bi-weekly payments, which are slightly higher than monthly...But you'll be paying off within five years more [Pecan], I mean they show the comparison, but overall, the term of the loan you would be paying off your principal faster. (MA-006)

Monthly Payment

“ Well, pretty much, when a person [wants] to refinance, they're looking to lower mortgage payments for whatever reason and I mean, for me in my situation, this wouldn't lower my mortgage payment. Actually it would increase it a lot...and it's adjustable. A lot of people today are not looking for adjustable rates; they're looking for fixed rates. And from the beginning I knew this was a...based on adjustable rates, so no I wouldn't want that. (MA-002)

But they're different because this [Laurel] adjusts every year starting in Year 8. This [Lilac] adjusts every year starting in Year 4. Every three years starting in Year 4. They both can go as high. I think this one [Lilac] would be better because this one thing would go up every year. This one would go up earlier, but then it won't go up again for three more years. This one [Lilac] the monthly payments is lower, the cash to close is lower. (MA-004)

Consumer participants could understand the basic loan terms and select a loan that worked for them

Page 1 continued to work well in terms of overall consumer participant comprehension. Consumer participants specifically understood the overall loan terms, the basic idea of *Projected Payments*, and the comparison sections. At the same time, a few areas within these larger sections needed adjusting to enhance comprehension.

Top of Page/Key Terms

Most consumer participants noticed the loan term and the loan product at the top of page 1 and used this information, in part, to choose a loan. Consumer participants noticed the basic details of the *Key Terms* (the amount and whether the amounts would increase after closing as well as the loan features, such as *Prepayment Penalty* and *Balloon Payments*, in their first read. Consumer participants easily noticed increases in interest rates and the frequency of payments (monthly versus bi-weekly).

“Very simply, it asks on Pecan the question: can this amount increase after closing? That is a very simple answer. Simply stated. So it looks like it will be a fixed mortgage. [It has a] pre-penalty, yes, for the first two years...Years 1 through 15, it [the payment] is simply stated \$934.24. That is something I could swing. Plus taxes is simply stated here, very nice—to cover your insurance and property taxes, which is great. (MA-001)

They kind of give you a basis of what you're getting as far as your loan is concerned. How much of financing and what your interest rates are going to be, what your payments are going to be. The biggest thing you are concerned about is what your payment is. It is important to know if tax is included, and what's that total cost going to be? What you need to bring at closing time when you go to closing on your loan. (MA-003)

Now [I'm] looking at product type, fixed rate, because I know a fixed rate is always a good thing. So that catches my eye. Interest rate 3.6% and the amount increases after closing. That catches my eye because some places I know they can, after a couple years, increase your mortgage. That's not a good thing...I'm not a big fan of bi-weekly loan payments, so I would not be that interested in that. (MA-004)

Bi-weekly Loan Payments

Many consumer participants noticed the bi-weekly loan payments, even if they did not want a bi-weekly payment, reinforcing that the disclosure worked to show slight changes in key terms.

“The whole bi-weekly loan payment just to me is not attractive. I want to see monthly numbers. I want to see a breakdown of what I am paying per month. (MA-001)

This is a bi-weekly style, and I would have to come up with \$474...every two weeks. I mean I have to go through this process, but immediately I would just put this aside because of that alone. (MA-002)

Pre-payment Penalty

Consumer participants also noticed when the Loan Estimates included prepayment penalties. While many were unsure about the specifics of how a pre-payment penalty works, most consumer participants noticed that the Loan Estimate included it, reinforcing that the disclosure conveys important information.

“ The first thing that concerns me is Prepayment Penalty in the first two years. This says that there is a penalty, and I could do the first two years and be fine without prepaying. (MA-001)

Consumer participants understood their maximum and minimum payments using *Projected Payments*

Consumer participants easily saw the maximum and minimum payments. Only one participant completely misunderstood the payment range, thinking it offered a choice of how much to pay each month. A few consumer participants used the *Adjustable Interest Rate Information* table on page 2 to understand and predict the interest information on page 1. Although consumer participants often overlooked the total monthly payment at first, they did tend to see it without prompting later in the testing, which enabled them to understand the total monthly payment for Year 1. In general, consumer participants continued to not understand that they needed to add taxes and insurance to the payment for future years. Additionally, in this round of testing, consumer participants had more questions than in prior rounds about how and why payments went up or down.

Consumer participants struggled with the taxes and insurance and did not understand to add them to the monthly payment to get a total monthly payment

Consumer participants had difficulty with the *Taxes and Insurance* and *Escrow* sections within *Projected Payments*. This section did not clearly and easily convey the total monthly payment. Although consumer participants were generally able to understand the total monthly payment for Year 1, they failed to account for taxes and insurance for future payments. Some consumer participants commented on *Mortgage Insurance* but didn't understand how it differed from *Taxes and Insurance* or *Homeowner's Insurance*.

Both consumer and industry participants wanted to see a more prominent number for the total monthly payment for the first year and for subsequent years, not merely a loan payment where they had to add in taxes and insurance.

“ Looking at the projected payment and monthly loan payments, these amounts here, within the time period, are they including the tax and insurance or no? (MA-002)

It would be a max of \$868 based on if your mortgage insurance stayed the same. Somewhere between \$588 and \$868...I'm not sure if that would include the taxes and insurance. I'm not sure. (MA-007)

Only one consumer participant was able to fully understand that taxes and insurance are additional and needed to be added in subsequent years.

I think it's pretty understandable. I think that you would add the \$232 a month to any one of the Years 1 through 3, 4 through 6, 7 through 9, and 10 up to the 30-year mortgage...It could be as little as \$640 plus the insurance, \$232, or as much as \$884 plus \$232, provided that that rate stayed as a constant rate. (MA-006)

The phrase “to start” confused some consumer participants

Many consumer participants were unclear about the wording “to start”—thinking it meant the first payment or perhaps the first year.

“ For Year 1, the check is going to be for, according to this, \$913. Well, I'm not sure... it says escrow, expect to pay \$913 for total monthly payment, to start. So is that my monthly payment for the first year or is that my first monthly payment? That would be my question...What exactly is my first payment? Is my first payment \$913 or is it \$647? (MA-003)

Let's see, it's a little confusing...It says principal and interest \$534, mortgage insurance \$86, then taxes, insurance. Oh, plus tax, an estimated \$230...to start. I don't know. I don't understand it. (MA-004)

I just realized it says taxes and insurance. And this makes it sound like it's already included in there. This almost makes me think I have an added \$313—no, that's just to start. Not really sure. (MA-005)

Consumer participants understood from experience that taxes and insurance were added to monthly payments

While consumer participants generally understood taxes and insurance needed to be added to the payment in Year 1, they did not understand that they would need to add taxes and insurance to the loan payment in future years to determine the total monthly payment. Consumer participants understood the concept of taxes and insurance changing, but mainly from their own personal experience, not from the disclosure.

“ A couple of factors: your taxes can change based upon the city, assess of the area, and they raise the taxes on the property or they can lower the taxes on the property. Homeowner's insurance can change based upon if you put too many claims in, they could drop you; you go to another insurance company; you could be a high risk so payments can go high; or they can credit you for being such a good customer and reduce your payment. (MA-003)

Depends on increases or decreases in property values, things of that nature. Being a homeowner I think you kind of have to expect that. Based on past experience things go up. (MA-001)

Industry participants felt the taxes and insurance needed to be added to the payment for a total payment, and made more conspicuous.

“ *It makes no sense to take this and say your principal and interest, which is your bank payment, is \$560, your mortgage insurance is \$86. What’s my total payment? Wait a minute, I’ve got to add to that. I want to see that in one block. (MA-Broker-001)*

Okay, this payment is kind of confusing because this principal interest payment plus the mortgage insurance payment, and the taxes and insurance are not included in that payment...so to me that is confusing. (MA-Lender-002)

Many consumer participants did not fully understand the Escrow section

Consumer participants preferred loans that included escrow. Consumer participants indicated that if they received a Loan Estimate where escrow wasn’t included, they might ask for it as an option. Many consumer participants were unable to connect the escrow box on page 1 and Section E on page 2. Consumer did not appear confused about the meaning of escrow, *i.e.*, that taxes and insurance were included in their payments and that they wouldn’t have to make a separate payment to anyone. Consumer participants understood that taxes and insurance would continue for as long as they owned the house. One industry participant commented that the payments do not show a possible increase in escrow payments.

“ *Honestly, I would ask them why escrow costs are not figured in and is there a way to possibly include escrow fees, homeowner’s insurance, and property taxes. And if there are, then what will it look like. (MA-001)*

For the mortgage company, it [the payment] would be for the \$474.55, but the taxes and insurance, it’s saying I have to pay it separately, so those would have to go to separate... So, I wouldn’t pay to them, I would actually pay it to my insurance company or my taxes would be paid to the city. (MA-002)

Yes, and again there’s that whole not really understanding this escrow. \$590 and then the parentheses with the \$115 plus the \$475 [Poplar]. Up here it also says plus taxes and insurance, estimated \$115 bi-weekly to start. I would wonder what this whole bit is about, I guess. It seems it’s all in the one box that I have a question. (MA-005)

I’m so used to having it included in my payment I never looked into is there like a minimum quarterly payment that you have to make or not because I’ve always had escrow. So that’s a good point—maybe there should be more disclosure in a situation where you’re not lumping everything together. (MA-006)

Specific Findings

Tolerance Language

Several consumer participants, including one of the industry participants, did not understand the language used to disclose tolerance limitations under the regulations implementing RESPA. While many noticed the tolerance language, they were unsure how to use or apply it. They often saw the “cannot be higher than” language, but had little idea about the source of the specific number.

“It says it cannot be higher than \$1,722 at closing. Why not? But you choose your own provider...so the total cannot be higher than \$1,722 at closing, why? (MA-002)

This total section cannot be higher than \$539 at closing. What's \$539 as opposed to \$490? (MA-003)

The total for this section cannot be higher than \$758 at closing, but that they're telling you that, it sounds like it can go up. (MA-006)

The total for this section cannot be higher than \$671 at closing. For this section?...I'm confused here. (MA-008)

The same loan amount, how did they get two different tolerances? I do not understand that. (MA-Lender-002)

Lender Credit

Participants were confused by the *Lender Credit*, with some understanding that the credit was a tradeoff for “something,” but unclear what the tradeoff was or when it would “catch up” with them. No one understood that the *Lender Credit* reduced their closing costs.

“The lender would have to explain to me why the negative \$2,100. What is that? Not to change my opinion of him or her, but...it's coming from somewhere and will that bite you in the butt later on down the line? How does that work? (MA-002)

What is a lender credit? Does that have to do with like depending on your, like how well you—the term just popped out of my head. Your credit rating. There you go—I don't know if you get like credits, you get better rates for better credit. (MA-006)

Prepays

More than in prior rounds, consumer participants were confused by the *Prepays* and *Escrow* sections. Few consumer participants understood why they would have *Prepays* and how or why the period of time was selected. No one understood that this related to the closing period on the loan.

“So, why would I have to pre-pay my insurance? I have my own insurance company. You normally do pay your insurance up front, but it looks like you're...I don't know...I've never seen that. (MA-002)

What is prepaid interest? Why is it \$1,260 a day for 15 days? What exactly is that data? (MA-003)

I would ask them about this prepaid interest...is that the first 15 days of the mortgage you're paying that part of the interest? I just hadn't heard of that. (MA-007)

The mortgage insurance, they break it down, homeowner's, taxes...I don't know what the heck this means. (MA-008)

Costs and Fees on page 2

Industry participants felt consumers would want to see a more detailed breakdown of costs and fees and know where their money was going. One industry participant noted that seeing the itemization of costs might better enable consumer shopping.

“ *Yes, and I want to see a breakdown. I think people want to see breakdowns. I don't think people want to see a lot of detail. But when it comes to dollars and where their money is being spent, they want to see detail. They want to see is this origination fee...what does this cover? Is it an admin fee to the lender? What is origination fees to lender of \$1,400? What is that? Is that \$1,400 worth of junk fees? Which are not against the law, but what is in that number? Is that \$400 for an admin fee? What is in these numbers? This is where the detail has to be, absolutely...What are these fees? Because if they're too high, I'm going to shop. That's got to be itemized. (MA-Broker-001)*

I would like the ability to have a worksheet to break out what the costs are even further. For instance, origination fees from lender, what do they cover? Is that origination a point, 1% of the loan a little bit higher than that? So what is the origination fee to brokers? Is that part of a point or processing fees? What are those fees? I would like to see what other fees, for instance. What do those cover? What do they go towards? Is it the processing or whatever? They lump all this money together and I would put a fee to what each one costs, a box, so you know what is being charged here. (MA-Lender-002)

Comparisons

In the *Comparisons* section, participants understood and used the *In 5 Years* measure, but had little clarity around the meaning or usefulness of the *Annual Percentage Rate (APR)* and *Total Interest Percentage (TIP)* measures.

In 5 Years

Consumer participants actively used *In 5 Years* to compare the two loan products. Most consumer participants said that they would use *In 5 Years* to compare loans and felt it was the most helpful part of the *Comparisons* section. A few, however, didn't feel it would be very useful to them.

Neither of the industry participants understood the purpose of the *In 5 Years* section and wanted it tied to the first change in the loan, such as "In 7 Years."

“ Total you will have paid in principal, interest...paid over five years. I like that. That it shows you what you'll pay towards principal in the five years. (MA-007)

Some people want to know in five years how much would I have paid into the loan; others, I am talking about myself...five years wouldn't do any good for me. (MA-003)

“In 5 Years” comparisons, the total you would have paid in five years with principal, interest, mortgage insurance, and fees is \$42,366 so that gives people an idea in five years, and I do not know why it does not go seven years because it is a seven year ARM which is confusing a little bit because they go up in a year so why not do seven years? (MA-Lender-002)

I'm not sure why this is here as to how much they've paid off in five years. I don't even know why that is on there. You could attach a simple amortization schedule that shows the payoff month by month, or at least match it to the program [of the loan chosen]—for the seven years what they have paid on the seventh year. (MA-Broker-001)

Annual Percentage Rate (APR)

In general, consumer participants knew the interest rate and APR were separate items—in part, because of the Round 3 (Illinois) addition of a sentence that specifically stated: “This is not your interest rate.” However, they did not understand what APR means or how it relates to the interest rate, and how it is useful as a comparison. One industry participant felt showing how APR is calculated would be a helpful addition.

“ It is confusing to me because if I go in at one rate, I'm fixed, I expect to stay there for the time that I finance my home, 30 years...I understand when you make a payment it all adds up, but again, oh, but it does say, this is not your interest rate. That's confusing to me. If you gave me these I would ask you to explain that. (MA-002)

Costs over the loan term—oh, I'm confused. I don't understand the difference between a percentage rate and an interest rate. (MA-004)

This is not your interest fee. This rate expresses your costs over the long-term...what costs are they talking about? (MA-008)

So you've got the TIL, you've got the annual percentage rate. I'd kind of like to see a calculation for the TIL in here so that people can understand how when you're doing a 3.375 rate you ended up with 3.96 annual percentage rate...I'd like to see a block in there, if we're going to eliminate the TIL, to show how this 3.96 rate was derived at. (MA-Broker-002)

Total Interest Percentage (TIP)

In this round, we introduced *Total Interest Percentage (TIP)*, which is required by the Dodd-Frank Act, as another comparison measure. Consumer participants did not understand *TIP* or how they could use it to compare loans, although they typically guessed that a lower number would be better. One industry participant felt *TIP* might be helpful but that the way it was currently displayed was confusing.

“ What do you mean total interest percentage? Why is that so much higher? This whole part here is very confusing. (MA-008)

I guess this is telling me over the life of the loan you have paid, which I don't understand, 79.7%; that might be something I might look up on the internet just to see what the definition of the TIP is. (MA-003)

I'd think you would want it to be low. I mean no one would want it to be 93.3% interest. But I don't know, maybe I don't understand that. (MA-004)

It might be helpful. They look at that, it is also typically listed in the TILA, the current TILA, I think it is more financed and I think more straightforward than this. This is a little confusing. (MA-Lender-002)

Truth in Lending

Consumer participants looked at the separate page 3 of Truth in Lending and other statements and paraphrased each statement. They then marked whether the statements were critical to have when deciding among loans. They also marked the statements that they wanted to receive at closing. See Table 18. Truth in Lending and Other Statements for consolidated results.

Consumer participants understood the basic purpose of these statements

“ I think the first thing I am looking is kind of like additional fine print, standard formal contract I believe. Just basic standard contract stuff—what they tend to do letting you know that there will be a late fee of \$50.00 on the mortgage if it is 15 days late, things of that nature. Just contract details simply stating what you are getting into. (MA-001)

It tells you information about your loan. What the loan company—what they're going to do, what they're not going to do for your loan. (MA-003)

The purpose is to make you aware of additional fees that they might be assigning you. (MA-006)

I just think everything should be disclosed, all terms. No surprises. I mean everything—to know everything I think is important. I mean it's common sense but at least to be told. (MA-007)

Consumer participants misunderstood some terms

A few consumer participants voiced some questions or concerns about specific items that were unfamiliar or unclear. For example, some struggled with *Security Interest* and misinterpreted *Assumption*.

“Well there’s a couple of questions...that would have to be answered. One is them not guaranteeing refinancing, why? For what reason? There’s no explanation there. Is there a document listed down here that would be able to tell me, explain that to me? “Other ways”—what other ways would I default on a loan if I’m making the payments on time? That would be a question, are there other ways? (MA-002)

I don’t understand what they mean by...security interest. What’s my security interest? So I guess that’s the question I want to ask. (MA-003)

Well that’s scary (Assumptions) because that means your terms can be changed. So that’s not good...That would make me feel like they could change stuff and make me pay more or change the interest rates or anything. It just doesn’t make me feel secure about my loan. (MA-004)

I’d probably want to know “when we can require a payment of the loan before the scheduled date and the rules for making payments”...I kind of would want more information on that. (MA-006)

TABLE 18. Truth in Lending and Other Statements, Round 4

Truth in Lending Statement	Critical at Initial Contact		Critical at Closing	
	Consumer (8)	Industry (2)	Consumer (8)	Industry (2)
<p>Late Payment</p> <p>If your payment is more than 15 days late, we will charge you a late fee of \$50.</p>	0	0	4	0
<p>Servicing</p> <p><input type="checkbox"/> We intend to service your loan. You will make payments to us.</p> <p><input type="checkbox"/> We intend to assign, sell, or transfer servicing of your loan.</p>	4	0	0	0
<p>Assumption</p> <p>If you sell or transfer your house to another person, we</p> <p><input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms</p> <p><input type="checkbox"/> will not allow this person to assume this loan on the original terms.</p>	5	2	3	0
<p>Security Interest</p> <p>You are granting us a security interest in 456 Avenue A, Anytown, MA 12345. You may lose this property if you do not make all of your payments or satisfy other obligations for this loan.</p>	0	0	3	0
<p>Appraisals</p> <p>We will promptly give you a copy of any written property appraisals or valuations you pay for.</p>	0	0	3	0
<p>Refinance</p> <p>We do not guarantee that you will be able to refinance to lower your rate and payments in the future.</p>	4	0	3	2

Truth in Lending Statement	Critical at Initial Contact		Critical at Closing	
<p>Contract Details</p> <p>See your contract documents for information on our rights if you fail to make your payments, other ways you may default on the loan, when your lender can require repayment of the loan before the scheduled date, and the loan's prepayment penalties or rebates.</p>	4	2	3	0
<p>Tax Deduction</p> <p>If you borrow more than your home is worth, you may not be able to deduct interest on the amount above the home's fair market value from your federal income tax. Consult a tax advisor to find out if you may deduct the interest you pay.</p>	4	0	3	2

Participants understood the limits to Verify Receipt

All but two participants understood that their signature in the *Verify Receipt* section was non-binding and had no consequence for them. The two participants were concerned they were "locked in" or would want a lawyer to review.

“ It does not bind me to anything. It is just giving me the information. It's kind of covering themselves...I wouldn't have to accept the loan due to disclosure, so I understand that. (MA-003)

Basically that the lender just showed you this and they have it on record. It's not forcing you to take this loan because it says, it's just verifying for their records I guess if they ever got audited that they provided this to you. (MA-006)

I think once I sign this, I'm locked in. (MA-002)

That I am initiating this contract with them but not obligated to go through with it... honestly having my lawyer read it if he/she said it was ok then I probably would sign it. (MA-001)

Industry participants found most of the disclosure statements acceptable

Overall the industry participants felt page 3 was clear but one had a few suggestions around security interest, adding a statement that there is no demand feature and adding a statement to servicing that even if the loan is sold, payments cannot change.

“ [Security Interest] You may lose this property if you do not make all of your payments... or satisfy other obligations for this loan. What other obligations? If I make all my payments, are there other obligations I’m not aware of? (MA-Broker-001)

I’m also not seeing in here, which I think needs to be incorporated, is that this loan does not have a demand feature...there used to be loans that would have a demand feature that they could call that loan in if they didn’t particularly like something. They had the ability to do that. It hasn’t been legal for a while, but it’s still in our disclosure, and I think the borrowers need to know that there’s no demand feature. (MA-Broker-001)

Design Findings

Overall, consumer participants were able to better identify *Services You Can Shop For* and preferred the two-column design (Design 1) of page 2. In general, consumers did not question, or think they could question, most of the charges except for those in the *Services You Can Shop For* section. The single column design simply confused consumers with its more graphic approach.

Consumer participants recognized their ability to shop more easily using Design 1

Many consumer participants recognized their ability to shop more quickly in the two-column design of Design 1, especially Section C. *Services You Can Shop For* and *Homeowner’s Insurance*. Some consumer participants missed the alphabetical letters marking each section, although most used them.

“ [I can negotiate things] In the C: Things you can shop around for versus B: You cannot shop around for. (MA-001)

[To lower closing costs] you’d go to the little box that says Services You Can Shop For. So to me that would mean like you can compare different prices, rates. So title, service fees, lender, type of policy...attorneys. (MA-004)

Lowering my costs...I don’t really see how you could lower your costs on this unless you’re getting a huge lender credit. You could get a cheaper title service fee maybe. Well, I guess you can shop for services under item C. (MA-006)

Consumer participants preferred Cash to Close in Design 2 but found it more easily in Design 1

Consumer participants said they preferred the *Cash to Close* in the *Key Terms* (Design 2), but actually found it more easily in *Projected Payments* (Design 1). Consumers readily recognized that *Cash to Close* could change before closing. In Design 1, consumer participants understood that *Cash to Close* could change because it was marked as “estimated.” Consumer participants identified *Estimated Cash to Close* easily in Design 1, saw *Settlement Costs* as a part of that number, and linked it to the numbers on page 2. In Design 2, consumer participants read the question and answer built into the table. Industry participants preferred *Cash to Close* in the *Projected Payments* (Design 1) because they believed it wasn’t a key term.

“ I like the setup the way they have it as far as this page [Design 2] is concerned. I just don’t like the fact that they had the estimated cash to close opposite of everything else [in *Projected Payments* in Design 1]...I prefer the way Pecan [Design 2] has it set up. (MA-003)

Yes. I just like this better [Design 2]...The cash to close and your monthly payment—it’s just broken down better. (MA-006)

I would expect that [cash to close could change] a little bit because it says estimated cash to close could be higher or lower and I have to expect that. If it was obscenely higher, then I would say “no thanks.” (MA-001)

[The closing amount can change...] because in bold right here in Design 2 it states the amount of cash to close can increase at the...closing. (MA-004)

I don’t like cash to close up there [Design 2]. You’ve gone from telling me the key terms of the loan, which is loan amount, interest rate, and monthly payment. This prepayment penalty and balloon payment is a part of the key terms. This [cash to close] just looked like it was plunked in the middle for no reason. (MA-Broker-001)

[Design 1 has] all of the key terms together. This is not a key term—cash to close is not a key term in my opinion. (MA-Broker-001)

Consumer participants preferred Design 1

Consumer participants preferred Design 1, because they believed it was easier to follow and less confusing. They liked the subtotals for the closing costs on page 2, with the detail below it. Some participants felt Design 1 was more “straightforward” and that they would feel “more comfortable” with that lender than with Design 2 lenders. The industry participants were split in their preference.

“ I kind of like how their back [page of Design 1] is set up. It’s almost set up like a spreadsheet. (MA-003)

This Design 1 just really breaks everything down, services you can shop for, services you can’t shop for which isn’t on Design 2 at all. I think the cash to close is a lot easier

to understand and the calculations are broken down better...everything's so neat and separated. I like Design 1 a lot better...I just think this [Design 1] makes me feel more comfortable design-wise. (MA-004)

I feel like it's [Design 1] a little more straightforward. This [Design 2] seemed like a mess to me, the back page. (MA-005)

This [Design 2] one is busy with all the pluses and equals. This [Design 1] is pretty straightforward. (MA-Lender-002)

I like this format [Design 2] very much. This is the same stuff, but this jumps at you by category, and I like that better. (MA-Broker-001)

Six consumer participants preferred Design 1, with two participants preferring Design 2. One industry participant preferred Design 1 and the other, Design 2.

TABLE 19. Design Preferences, Round 4

	Design 1	Design 2
Consumers	6	2
Lender/Broker	1	1
Total Percentage	70%	30%

Conclusion

Consumer participants continued to do well in terms of comprehension, comparison, and choice. They could integrate the information on page 1 to make complex trade-offs in choosing loans. They considered multiple aspects of the loan terms including the interest rate, how long a variable rate is fixed, the monthly payment and its variability, frequency of payments (bi-weekly or monthly), cash needed to close versus the period the interest rate is fixed, the overall cost of the refinance, whether taxes and insurance are escrowed, and the *In 5 Years* projection of principal paid. Page 1 continued to work well in terms of consumer participant comprehension, specifically their understanding of the key loan terms. Within *Projected Payments*, consumer participants had some difficulty identifying the total monthly payment and understanding if taxes and insurance were included in the payment or if they needed to add them in, especially for subsequent years. Consumer participants performed less well in Round 4 with page 2 compared to Round 3 (Illinois) in terms of shopping and knowing what costs could be negotiated or shopped for. This was true whether they used the traditional approach of Design 1 or the graphic approach of Design 2. Both designs reduced the number of items included in the itemization to about 20 items. Consumer participants also had difficulty understanding the tolerance language.

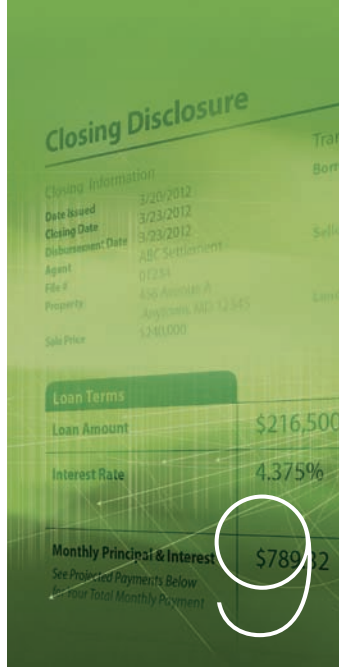
Revisions to Prototype, Round 4

Based on the results of Round 4, we consolidated the designs for pages 1 and 2 into a single design, based primarily on Design 1. The table below summarizes the significant changes we made and the reasons for them.

TABLE 20. Revisions to Prototype, Round 4

Revision	Reason
Overall	
Restructured logic of page 1	To emphasize two aspects of the transaction: (1) loan terms for shopping and (2) the two factors for affordability—immediate costs of Cash to Close and long term costs of monthly loan payments and property costs
Redesigned the Projected Payments table	To identify the estimated Total Monthly Payment throughout the term of the loan and its component parts: principal and interest, mortgage insurance, and estimated taxes and insurance
Moved Comparisons to page 3	To keep logic of page 1 clear and to put all comparisons in a single location
Created a separate section for Closing Costs	To give equal emphasis to both aspects of affordability—Projected Payments and Closing Costs
Added itemization detail to page 2	To return to the Round 2 and 3 levels of itemization, which encouraged consumers to ask questions about shopping and negotiation
Key Terms, page 1	
Changed title of section from Key Terms to Loan Terms	To reflect restructured logic of page 1
Changed Monthly Loan Payment to Monthly Principal and Interest and removed breakdown detail from columns 1 and 2	To emphasize the payment amount that is most useful for comparison between loans
Changed language under Monthly Principal and Interest	To refer consumers to the Projected Payments table to see more clearly what constitutes the monthly total payment
Projected Payments, page 1	
Removed Cash to Close	To make it its own section, giving this aspect of affordability emphasis similar to the Projected Payments
Renamed Monthly Loan Payments to Payment Calculation	To reflect that the components of the total monthly payment are added
Listed out the principal and interest, the mortgage insurance, and the estimated taxes and insurance	To show the calculation of the Total Monthly Payment

Revision	Reason
Reformatted the Escrow information	To better show the relationship of the escrow information with the total monthly payment
Closing Costs, page 1	
Made this a separate section with no content changes	To give this affordability aspect emphasis similar to the Projected Payments
Overall, page 2, Design 1	
Changed the title of column 1 to Calculating Settlement Costs	To match the title of column 2, Calculating Cash to Close
Added detail items to Sections A, B, and C	To enable consumers to shop and negotiate and to allow for the additional detail that lenders/brokers have requested
Put Prepays and Initial Escrow Payments at Closing into separate sections	To help consumers better link escrow on page 1 with the escrow information on page 2
Consolidated the tolerance language into column 2 below Section F and added bolded title of Limits on Increases	To give tolerance language more emphasis by placing all tolerance language together instead of parceling it out
Reordered the components in Section E to Property Taxes, Homeowner's Insurance, Mortgage Insurance, Prepaid Interest	To create a better connection to page 1 escrow
Reordered the components in Section F to Taxes & Assessments, Homeowner's Insurance, Mortgage Insurance, Flood Insurance, HOA/Condo/Co-op	To create a better connection to page 1 escrow
Truth in Lending Statements, page 3	
Added Lender Cost of Funds (LCF) to the Comparisons section	To comply with Dodd-Frank Act requirements
Labeled statements as Comparisons, Other Considerations, and Verify Receipt	To group information with an advance organizer to simplify processing for consumers
Reduced the number of statements included in Other Considerations	To reduce information on page 3 and include only those statements that are important to know at this point in the process



Usability Testing Round 5 – Albuquerque, NM (October 2011)

Introduction

As we entered Round 5, the design met most of our overarching performance goals. Consumer participants could clearly make sophisticated trade-offs when comparing loans. They could identify the basic loan terms and the sometimes subtle variations of different loan products. They understood the changes in payments and often understood the reason for those changes. They could identify when taxes and insurance were escrowed and understood they had to pay them when they were not escrowed. They used *In 5 Years* and the *Total Interest Percentage* to further compare loans. The itemized approach for page 2 activated consumer participants to ask questions and to negotiate various fees. For the most part, consumer participants understood the additional disclosure statements.

Despite these successes, we continued to fine-tune certain aspects of the design for this round of testing. We again focused on the *Projected Payments* to further clarify escrow. We removed the detailed breakdown of the monthly payment in the Loan Terms section, placing only the principal and interest payment in that section and substituting a statement “*See Projected Payments Below for Your Total Monthly Payment.*” Within *Projected Payments*, we added a header *Payment Calculation* and listed out three components of the *Total Monthly Payment: Principal & Interest, Mortgage Insurance, and Estimated Taxes & Insurance*. Below this, a new row listed the amount of taxes and insurance and indicated if they were escrowed or not. The design better showed when the mortgage insurance would no longer be required and gave two indications of when items were not escrowed. We also created a separate section on page 1

for *Closing Costs*, which required moving *Comparisons* to the new page 3. Within *Closing Costs*, we were balancing the tension between the *Settlement Costs*, which consumers can use to shop, and the *Cash to Close*, which includes multiple other costs that affect the affordability of the transaction.

We also consolidated the tolerance language into *Limits on Increase* to increase visibility. In addition, for the first time, we added page 3, which included required Truth in Lending and Dodd-Frank Act disclosures and other statutory disclosures being integrated into the Loan Estimate.

Research Goals

In Round 5, we continued to explore comprehension, comparison, and choice. We continued to test whether consumers could make trade-offs with complicated products, using several different elements. We also explored solutions to the ongoing nexus of issues around monthly loan payment, taxes and insurance, escrow, and the total monthly payment. Our specific research goals were to examine if consumer participants could

- understand what the total monthly payment includes and how it may change
- understand if taxes and insurance are escrowed or not escrowed
- distinguish between cash to close and settlement costs
- notice and understand the limits on increases
- understand the information in *Other Considerations*

Who We Tested

For Round 5, we conducted 10 cognitive interviews in Albuquerque, New Mexico (each lasting 90 minutes):

- eight consumer participants and
- two industry participants, one lender and one broker.

We over-recruited for participants with lower education and less purchase experience compared to previous rounds. Half of the consumer participants had no experience purchasing or refinancing a home, and 87.5% of the test population had a high school education or less, or some college, two-year school, or technical school. Consumer participants represented a range of demographics, such as age, gender, and income. See *Appendix A. Demographic Summary*.

Interview Structure

In Round 5, consumer participants received a single loan and did a think aloud. In Task 2, consumer participants compared the loan from Task 1 to the alternate similar product. After a short break, in Task 3, consumer participants compared two new loan products. In addition, they selected one loan from all four loan products they had seen. As a final task, consumer participants answered more specific questions about page 3 with the *Comparisons* and the *Other Considerations* sections. Industry participants followed the same interview structure, and we also provided a list of possible names for the disclosure.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw loan types in a carefully considered rotation or order. Consumer participants saw two loan types and four disclosures.

TABLE 21. Disclosure Rotations, Round 5

Participant	Task 1: First Loan either Fixed or ARM	Task 2: Second Loan of same product	Task 3: Two Alternate Loan Products	
NM-001	Balsam	Beech	Ficus	Fir
NM-002	Ficus	Fir	Balsam	Beech
NM-003	Beech	Balsam	Fir	Ficus
NM-004	Fir	Ficus	Beech	Balsam
NM-005	Balsam	Beech	Ficus	Fir
NM-006	Ficus	Fir	Balsam	Beech
NM-007	Beech	Balsam	Fir	Ficus
NM-008	Fir	Ficus	Beech	Balsam
NM-Broker-001	Balsam	Beech	Ficus	Fir
NM-Lender-002	Balsam	Beech	Ficus	Fir

What We Tested—Design

For this round, the design was constant across the four loans. To improve comprehension, we made changes to *Projected Payments*, *Escrow Information*, *Closing Costs*, *Limits on Increases*, and introduced page 3.

What We Tested—Loan Type

We tested one design and four loan products:

- 30 year fixed rate,
- 5 year, interest only fixed rate,
- 5/1 adjustable rate, and
- 3/3 adjustable rate.

The total was four disclosures. See Table 22. Loan Type, Round 5 for detailed differences across the loans.

TABLE 22. Loan Type, Round 5

One design			
Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Balsam Bank	30 year 3/3 ARM @ 3.5% As high as 6% in year 7 Closing costs of \$6,080 No escrow	Beech Bank	30 year 5/1 ARM @ 3.125% As high as 9% in year 10 Closing costs of \$8,522 Escrow
Ficus Bank	30 year Fixed 3.875% Closing costs of \$6,689 Escrow	Fir Bank	30 year 5 year interest only 4% Closing costs of \$5,839 No escrow

See Appendix H. *Loan Estimates for Round 5 – Albuquerque, New Mexico* for the disclosures that were tested in Round 5.

Overall Findings

Consumer participants could integrate the information to make complex trade-offs in choosing loans

Consumer participants continued to use the key elements of the loan and integrate the information to make complex trade-offs in choosing loans. Consumer participants used the disclosure to understand much about a single loan, and when they compared loans, they understood more deeply many aspects of the loans by seeing the similarities and the differences since more than one loan gave consumer participants a baseline upon which to understand the loan terms and costs. The design made complicated products look more complicated and simpler products look simpler because complicated products would have more information under *Loan Terms* about changes that could happen or additional terms, and they would often have more columns in the *Projected Payments* section. Consumer participants commented on this difference in appearance and often chose the simpler-looking product. Consumer participants could articulate sophisticated choices about the loan products that best fit their own personal needs. They used the following elements: type of loan product, interest rate, period of the initial interest rate on an ARM, total monthly payment and its variability, if taxes and insurance are escrowed, cash needed to close versus the period the interest rate is fixed, the *In 5 Years* projection of principal paid, and *Total Interest Percentage (TIP)*.

“The interest rate definitely stands out to me, so I’d look at the interest rate. I’d also look at the principal and interest, and about the amount increasing after closing, because to me that matters. Right now with Ficus, the payment looks like it would be \$761.79. It sounds like that’s a pretty solid payment, as opposed to Beech, where that could change within a couple of years, like every six years. And the difference in the amounts—it looks like it’s under a \$100 difference, so in that respect I would still lean towards this Ficus Bank. (NM-005)

The interest rate is higher with this bank. Another thing I noticed right away was that there's a "yes" in this amount increasing after closing and I don't like that. Increases to \$855 in six years. Includes only interest until—I wouldn't like that at all. I'm looking at this and you notice a higher interest rate and then you see a lower payment. You're like—hmmmm—but if you pay attention to the fact that your payment is going to go up by \$315 in six years, that's a lot of money. That's kind of a scary process to be in anyway because after six years in a house you might need to be putting on a roof, you might need to be doing your plumbing and not looking forward to paying an extra \$300 a month in your payment. (NM-006)

I was able to really break it down. They showed the principal and interest, showed exactly what the mortgage interest would be for Years 1 through 7, and the escrow or the estimated taxes and insurance. So that was real straightforward to me. I also liked the fact that it shows that your payment goes down after the 7th year. The interest rate was easy to find. The closing costs were pretty straightforward. I didn't need a whole lot more information there because I know that's all just bank lingo; it is just stuff that needs to be paid within your closing. The other thing that I really liked about it was the very last page, which talks about the additional information about the loan at Ficus, and actually shows a breakdown of the amount that you will pay towards your principal interest and mortgage and it shows the amount of principal that you have paid off in five years, so that's why I liked that one. (NM-004)

Consumer participants asked effective questions about loan products

The disclosure helped consumer participants understand the basic terms of the loan, but, more than that, it served to educate them and empower them to ask good questions. For example, *Projected Payments* helped consumer participants see that payments would change. Even if they did not fully understand why payments changed, they understood that payments would change, and that they as consumers needed more information. When consumer participants had two disclosures to compare, they raised even more questions because they easily saw differences between the two loans and could tell what they liked about each.

“*I'd call this bank and tell them Ficus is giving me a better deal, can you match it? If not, I'd keep with this bank. I sure wouldn't want a 5 year interest only, fixed rate. I want a permanent fixed rate so that way my interest rate doesn't go up. I'd do that and if they couldn't do it I don't think I would mess with them. (NM-002)*

[Fir] starts off lower and then accumulates, I guess, based on interest. Actually it's not based on interest. So I would just ask questions why is it that it goes up here in Year 6? What about it makes it increase to \$855? (NM-003)

I probably would ask one question that would be: do you have any loans that don't do this [adjusting payment]? I'm not interested in the payment getting bigger later. If I want the payment to get bigger I'll just pay more and pay it off faster. That would probably be my first question and depending on how he answered that, I'd probably be done doing business with him. (NM-006)

I would ask them, if this loan that they are trying to basically sell me is considered a 30 year conventional fixed rate mortgage, why does the payment jump for \$540 up to \$855 after the sixth year? That just doesn't make sense to me. (NM-004)

Most consumer participants understood to add taxes and insurance to the loan payment for future years

Unlike in previous rounds, consumer participants easily recognized their total monthly payments in *Projected Payments*. Only one consumer participant did not identify the correct total monthly payment. Consumer participants understood that payments would change over time and understood the causes of the change (rate adjustments, mortgage insurance dropping off, property tax changes). However, not all consumer participants clearly understood that taxes and insurance change, and their answers to these questions seemed related to prior personal experience or knowledge with home ownership. Consumer participants who looked at ARMs understood rate changes were the cause of payment adjustments; however, not all participants who received an interest only loan understood that payment adjustments were due to the interest only feature.

“ So Years 1 through 5, you are paying \$540 on principal and interest, your mortgage insurance is \$82 and then you have zero on your estimated taxes. So your total payment is \$622. Here, Years 6 through 11, your payment jumps from \$540 a month to \$855.10; you are still paying PMI and still zero on your taxes and insurance, but your payment then becomes \$937. Years 12 through 30, you are paying \$850.10 with no PMI and no taxes and insurance. So your payment does go down a little bit between Years 6 and 11 and Years 12 and 30, but not very much. (NM-004)

I'm leaning towards this Ficus Bank, because it makes me more comfortable to know for seven years that's what my payment would be, as opposed to here [Balsam]; after five years, it could ultimately increase to the \$1,083. That's like the minimum amount it would be, including mortgage insurance, all that good stuff. (NM-005)

I see that the price goes up a little bit sooner based on interest. It goes up in Year 4 as opposed to this one going up in Year 6. It looks like the overall estimated total monthly payment by Years 8 to 30 is more than [Balsam]. So at first glance it appears that this loan [Balsam] accumulates faster, or Balsam expects me to pay more sooner. But it also then looks like [Balsam] expects me to pay less overall in comparison to [Beech]. (NM-003)

Consumer participants understood and could use the concept of maximum and minimum in Projected Payments

In general, consumer participants who looked at ARM loans noticed the minimum and maximum amounts in *Projected Payments*. They could explain that future payments would fall somewhere in between, and that interest rates drove the changes.

“ The minimum means that you can pay \$802 but the maximum can't go any higher than \$1185...I'm reading here where interest rate adjusts every year. So it can depend on the interest rate. It can go as high as 9%. Here you're starting at 3.125%...they're telling

you that to get you started, during the first five years, this is what you're going to be able to pay. Then in Year 6 it's going to go up...it's telling you after that the interest rate is guaranteed for the first five years and then after that it can go up or down. (NM-002)

Looking at just Year 6, Beech Bank shows that the minimum principal and interest payment that you make is \$802, so that's the very lowest that your payment will be for Year 6. And the maximum that you can pay is \$854. So to me that goes back to this adjustable interest rate table here, that your minimum is 4.5% and your maximum is 9%. (NM-004)

Consumer participants recognized the estimated taxes and insurance for which they were responsible using Projected Payments

Consumer participants easily recognized the amount of taxes and insurance and what they had to pay. Only one consumer participant with a non-escrow loan product (Balsam) thought that \$212 was only for Years 1 through 3. In general, consumer participants recognized when taxes and insurance were and were not included in the total monthly payment, based on the escrow option. Additionally, consumer participants understood their responsibility for taxes and insurance when not escrowed, but they were unsure who they would pay. However, even inexperienced consumers could draw appropriate conclusions regarding escrowed taxes and insurance from the disclosure.

“ *Now jumping over to Balsam Bank, even though the payment up top is higher versus the payment up top for Beech Bank, the estimated total monthly is less for Balsam versus Beech. Okay, I am seeing why, because here for Balsam, they are not deducting any escrow. So in this case you are paying your own escrow, so that's why the payment is different there. And I am seeing the same kind of thing is the reason why the payment is lower and it adjusts at a lower amount because they are not withholding any escrow for you on that one. (NM-004)*

[For] this one [name of bank] also it does not seem that they do the taxes into the payment. So that means that every year you're going to be responsible for paying your property tax and all that out of your pocket, which some people do. (NM-006)

This one [name of bank] includes taxes and insurance. This one doesn't. You have to pay all your taxes and interest separately which can come all at one time (NM-002)

Yes, Balsam is lower. [For] Balsam, it says that you pay your taxes and insurance separately. So...this one seems cheaper but it's not covering as much of the expense. (NM-003)

Specific Findings

Consumer participants generally missed the Limits on Increases

Although we had consolidated the *Limits on Increases* information to draw attention to it, most consumer participants simply missed this section.

Most consumer participants could not connect the Escrow information on page 1 with Section F on page 2

Few consumer participants clearly understood the connection between *Section F* and page 1, but they did notice when *Section F* was empty and understood that it meant that the loan did not have escrow. Some noted that because *Section F* was empty, it made the loan appear less expensive. Consumer participants with more home buying experience better understood *Section F*.

“ I would also question the dollar amounts because on page 1, it says \$199 a month, [and] in *Section F*, I don't even see a \$199 broken out in any of these elements. And then it says a total of \$398. So what is the difference of the Escrow Payment at Closing as opposed to the escrow payment that's in the *Projected Payments* section? (NM-005)

I just think it [Section F] is explaining that when you close you're going to pay this much into the escrow account right then. That's all I think it's telling me. I don't really understand how escrow works either. It's one of those things that I guess you pay that much in and then it starts paying out when it needs to. But you've got to have some money in it, so the amount you're going to have to pay in closing depends on when you're closing in the year maybe. That would be my guess. (NM-006)

Now they don't list anything here for escrow [in Section F] and I don't know if there should be something listed there, so that's going to be something I would be kind of questioning also, if there should be initial escrow at closing. (NM-004)

Consumer participants could understand and use the Adjustable Payment (AP) and Adjustable Interest Rate (AIR) tables

The *AP* and *AIR* tables continued to work well, as they have in prior rounds, with consumer participants only noting confusion with terms of art, such as LIBOR and MTA. Consumer participants often used the *AP* and *AIR* tables after seeing the notation to “see page 2” in the *Loan Terms* section. Most consumer participants could read and understand the tables.

“ The first thing I notice is the interest rate again. This one is only 3.5% for three years. It adjusts every three years starting in Year 4 and could go as high as 6% in Year 7. “See table on page 2 for details.” I have to look at that. Adjusts every three years. Can go as high as \$947 in Year 7. That is just not making me happy...see if page 2 explains why it moves. Oh, the adjustable interest rate table. Index plus margin, OTA plus 3%, initial interest rate 3.5%, minimum/maximum interest rate. First change 2%, subsequent changes 2%, beginning of 37th month, 36 months after the first change. I don't like that. (NM-006)

To me it's [the AIR table] showing you here that it has my initial interest rate and then the minimum/maximum that it can go up is from 4.5% to 9% so that's going to increase my payment. The first change is only going to be 2% and the other changes are going to be 1%. It's telling you what month it's going to start and every 12 months after that. Every year after that it's going to go higher. (NM-002)

I'm not sure what LIBOR 4% is. Initial interest rate—I know that's what I'm getting for the house itself. That's what I'll be paying. The maximum interest rate it could go up to is 9%. And the minimum interest rate, and that's annual I believe, is 4.5%. The first change for interest rate would be 2% and subsequent changes it is saying are 1%. So it could add on an extra percent for that. And beginning of the 61st month, which is the five years I believe, would be the first change and every 12 months after that. (NM-007)

Comparisons

Consumer participants actively used the Comparisons sections to select loans, especially the *In 5 Years* and the *Total Interest Percentage (TIP)* measures, because these two concepts were the most understandable to them. Consumer participants understood that they wanted more principal paid off in five years and a lower *TIP*. At least three of eight consumer participants heavily relied on this section to select their loans. Consumer participants still struggled with the *Annual Percentage Rate (APR)* measure. At least one consumer participant was offended by the *Lender Cost of Funds (LCF)* measure. No consumer participant used *LCF* to compare.

In 5 Years

Consumer participants often focused on the *In 5 Years* measure when asked to compare two loans. Although no participant used *In 5 Years* to state that the loan was an interest only loan, they clearly used the section to see that only principal had been paid. In some cases, they compared two loans and changed to the loan that paid more principal. In other instances, it raised questions about the loan itself. Participants understood the relationship of principal and interest and wanted to choose loans with more principal paid off in the five-year period.

“ I think really the biggest thing that I would like or the thing that catches my eye the most is the amount of principal that they state will be paid off in five years. On the Beech Bank, it shows \$17,000 towards the principal paid off in five years, and on the Ficus it shows \$15,000 paid off towards the principal in five years, so that's what I will look at. (NM-004)

It would change my mind to the other bank, to Ficus, because there's a principal paid off of \$15,773. So that tells me that my payment, some of it, is obviously going to principal, as opposed to here it's saying nothing [principal] is paid in five years. So that means I'm paying nothing but interest, insurance, tax, fees, stuff like that, and none of it is actually going to principal, so I would change my mind based on this. (NM-005)

In five years you're not paying anything to principal with that loan [Fir Bank]. You're just paying interest. And it does show you that you're paying a lot in interest. That's \$540 a month in interest. (NM-006)

I'd wonder here about Fir, I'd wonder...why is it that zero principal would be paid off in five years? I'd just want to know why it works that way. Why does the loan work that way? Is that because it is so low in the first five years? (NM-003)

Annual Percentage Rate (APR)

As in prior rounds, consumer participants did not understand APR and, in particular, were confused about how it related to their interest rate—even with the additional text. No consumer participant used the APR measure to compare Loan Estimates.

“ *I don't understand the difference of the interest rate. What's the difference between this and the one they have in the front? (NM-002)*

Now the annual percentage rate, I just kept kind of wanting to flip back because for the Beech it shows an annual percentage rate 4.169%, so this is not your interest rate, this rate expresses your cost. That is a little bit confusing to me. (NM-004)

Well, I would need an explanation on what that APR rate is exactly because I wouldn't know if higher or lower is good or worse, so I would probably need an explanation. (NM-005)

Total Interest Percentage (TIP)

Several consumer participants actively used the TIP measure when comparing Loan Estimates. They understood the concept of total interest and knew that they wanted a loan with a lower total interest percentage. Along with the *In 5 Years* measure, the TIP measure was cited as the most useful comparative measure.

“ *Basically it's the percentage of interest I'm going to pay on the loan...I don't want to necessarily have a loan that I'm going to pay a ton of interest on. So I would look at who has the lower percentage of interest that I'm going to be paying. (NM-003)*

I think that is just trying to show how much money will actually be going towards interest at the end of a loan...I would always want to pay the least amount of interest on the loan. (NM-004)

I'm back to—holey moley!—total interest percentage on this one...okay, Beech is out! Beech is 100% out. I would never even look at that again. Throw it away. I want to go back to Ficus. I like them better. (NM-006)

Lender Cost of Funds (LCF)

Consumer participants typically either ignored the *LCF* measure or expressed confusion about it. Even when consumer participants understood what *LCF* was, they still often questioned why it was included. One consumer participant was offended by the *LCF*.

“To me it just seems unnecessary to know what the lender is paying. In one sense it is good to know because it does show that if they have to pay a lower amount of interest, then therefore you may also be able to pay the lower amount, but it just seems unnecessary to me. It almost makes me feel like I should be glad that they are only having to pay this much or how would I say, sort of like, almost like a threat in a way, this is how it kind of makes me feel. (NM-004)

So the lender, meaning I'm assuming the bank, who are they borrowing the money from to lend that back to me? And why is there a percentage attached to that? So, that's seems a little bit confusing to me because I feel like I'm the borrower, borrowing from the bank, but is the bank borrowing the money from somewhere? (NM-005)

The rate the lender pays to borrow money to lend you...would you want to use that to compare loans? I guess it's nice that they tell you. I don't think you can really negotiate a whole lot when it comes to these things. I don't know why it really matters I guess. (NM-006)

Other Considerations

The *Other Considerations* section listed the Truth in Lending and other statutory disclosure statements. Most participants found these statements clear. However, participants reacted negatively to the *Refinance* statement.

Refinance

Often consumer participants stopped at the *Refinance* statement and questioned it. Some thought it meant that the lender would refuse to refinance. In at least one case, this statement steered the consumer participant away from the loan product.

“Refinance...wow! They're just telling you that you can't go through the same mortgage company. If your rate is 3.5% [and] it drops to say 2.5%, they're not going to guarantee that you can refinance through them to get the lower mortgage rate. Which is kind of stinky...the fact that they're not allowing you to refinance, because I did that with our mortgage company. I think you should have the option to refinance if you want. (NM-002)

Oh, “we do not guarantee that you'll be able to refinance your loan.” That part catches my eye. That's something that I probably would want in the feature depending on circumstances or the need. (NM-003)

Verify Receipt

Consumer participants understood that the signature in the *Verify Receipt* section simply meant that they had received and read the disclosure. Because of its non-binding nature, most consumer participants said they would sign. Two consumer participants, however, thought signing meant they were tied to the loan in some ways.

“ It’s fine you can back out of it, but you might lose your application fee, you might lose some processing fees, but you don’t have to go through with it. (NM-002)

I am not sure why they even want a signature on this because you are not held to any type of a contract if you sign this receipt, so they are just wanting you to verify that you did receive the loan estimate or the loan disclosure information, but you are not held to any contract. That is what I gather from that. (NM-004)

I don’t think that I have to go with this bank and feel under pressure to have to sign up with this bank. I could take this piece of paper and recycle it if I wanted to. That’s how I feel about it. (NM-005)

I’m pretty sure if you sign it that means you’ve got to deal with them and if you go do it with somebody else you can get in trouble. (NM-006)

What does it mean when I sign it? Basically, you’re buying the house. Basically, you agree with the deal...there’s a penalty if I do that, if I do back out of this contract. (NM-001)

Design Findings

Consumer participants used page 2 to compare fees and noted how they would negotiate or shop for services

Consumer participants easily worked with the two columns on page 2 of the Loan Estimate and read down the columns, noting the link to the two totals on page 1. Consumer participants easily saw the *Services You Can Shop For* information and noted that these items and some other items in column 1 were the ones they could negotiate or shop for. Most consumer participants questioned some of the details and said they would try to negotiate, especially when comparing two Loan Estimates.

Consumer participants could easily compare fees between loans and often independently noted that certain loans had more fees, higher fees, or higher section totals than the other loan. Consumer participants gave different answers for how they could lower costs, including naming elements they felt they could control, such as down payment, homeowner’s insurance, seller credits, and/or a lower interest rate. Others said they would try to reduce costs in *Section A* and *Section C* because those were “negotiable” items.

“ I can shop for my own appraisal. I can do an inspection fee, a survey fee, insurance binder, a title search, a lender’s policy, an owner’s policy. It says right here some you can shop for and some you can’t shop for. (NM-002)

I would just go to the services and ask if I really need to pay \$125 for an inspection fee or is that optional or can I find someone cheaper who does that. Same with any of those things, title examination and all that...I would say, are these concrete? Is it based on the terms of the loan that I have to go through you for these things? Or can I work it out myself? (NM-003)

Services that you cannot shop for versus services that you can shop for—I have never seen that before...it means that these services here are non-negotiable, those are the services that you cannot shop for. So the credit report fee is set, appraisal fee is set, tax is set, flood determination is set, all those are set. Now as far as (c), that says services you can shop for. And so those would be considered negotiable or ones that you could shop around for and bring in your own groups for survey, pest inspection, and that type of thing. (NM-004)

Page 2 design activated consumer participants to ask for more explanations of the fees

Consumer participants asked for more specific information on fees and services to help them use this page. Consumer participants sometimes missed the *Limits on Increases* paragraph on the first read, but once they found the information, consumer participants generally understood the tolerances and how they would work. Many consumer participants wanted more explanation of the terms and more information about the fees or if they were necessary; some stated they would access the CFPB website address at the bottom of page 1.

“ I know I would read, but I would definitely want some explaining for some of these fees, even if it’s just a little bullet, like some kind of detail. (NM-002)

I would need education in every single [item] A through F and someone to explain to me what every single area means, or to have some sort of verbiage attached to each of those areas...I would probably want, to be honest with you, every section explained to me. Because what do these charges mean to me? What is the Services You Cannot Shop For? Credit report fees and appraisal fees...what does that mean to me as a buyer? I would want a brief synopsis on every single one of those. (NM-004)

Well, what I would do next is I would go to this website because I feel like the paperwork they give you is not as detailed as what they would supply on the web site or vice versa. So this seems like something that needs a little bit more detail to it and the first thing I’d probably do is go to the web site and I’d probably question some of these things like we discussed, because maybe those definitions and these numbers and things might make more sense reading up on it. After that, I probably would reach out to my loan officer, and contact him to meet and discuss the disclosure and what I’ve learned from the Internet. (NM-005)

Industry Findings

Industry participants stated the disclosure would help them explain loans to clients

The industry participants both commented favorably on the disclosure. They liked the *Total Monthly Payment* information (which had been a consistent lender/broker issue in prior rounds of testing) and liked the clear loan terms and projected payments. Both felt they could use the disclosure to explain the loan terms to their clients.

“ This is certainly more detailed. I like that. I think that is what consumers need to have explained. (NM-Broker-001)

I personally think that they're easy to read; I like the layout, I like how they group the information together so I think that anybody looking at this is not going to have any problem seeing what their interest rate is going to be, what their payment is going to be. I like how it projects out exactly the payments so they know going into the loan exactly what their maximum payment is going to be, based on the market of course, but it's never going to be higher than that amount. I think that keeps a lot of people from getting in trouble when they don't understand. They may see an interest rate but they don't see the payment and they don't really know how the two correlate so it makes a huge difference and I think it's important both are included. The closing costs, I like that it has the total on the front and then the breakdown on the next page because I think the front page gives all the pertinent information for the borrower and then if there's a big difference on the closing fees, then the borrowers are going to want to look at the second page and see what that difference is, that there are costs that they could avoid, that kind of stuff. I like the form;, I think it's a step in the right direction. (NM-Lender-002)

There's nothing hidden...you have your terms and you have your projected payments and you have your closing costs. They're all separated out so I think anybody at a glance is going to be able to easily compare one to the other. (NM-Lender-002)

Both industry participants thought the disclosure was an improvement from the current TIL [disclosures] and GFE, but urged restraint from including more information and making it even longer, specifically referring to the new Dodd-Frank Act items, the *TIP* and *LCF*.

“ If you are looking in comparison and the evolution of these forms, I think it is certainly improving...compared to what we have now in the GFE, I think I would give it a “4” [a rating of “Somewhat Good Form”]. It is certainly better than the GFE because of page 2. Page 2 provides a better breakdown and a better understanding in the tablet form as opposed to block. (NM-Broker-001)

I think it's better than what we've had, but again, I feel like they should pull back a little bit on how much information they're giving to people. If you ask the average consumer, “Do you want to know the total interest percentage on your loan?”, I assume that they

would say “no.” And the same with the cost of funds; I think if they polled the general public, I don’t think consumers would want that information in there, if it’s really about the consumer I think they should ask the consumer what they want to know. (NM-Lender-002)

Industry participants expressed concerns about Projected Payments and Escrow information

Both industry participants felt that consumers might not see or understand the projected payments and escrow information.

“ I don’t think that [Escrow information in the Projected Payments section on page 1] makes it perfectly clear to them. That is the amount that they may have to save up in anticipation of that. Everybody knows you are paying taxes and insurance. Even though the box is checked “no escrows,” they are sitting at closing and there is a stack of paper like this for the first-time homebuyer. That certainly included a number as you pointed out what it could be. I think the escrow information needs to be more strongly worded that...we pay taxes every six months. We made a disclosure or taxes of X amount, in this case \$105.00 a month. By November 15th, a payment of \$630 will be due. The next payment will be due by May 1st. Show the amount and when it would be due. I think would be a better way other than just checking the “no escrow” box. Twelve months from now you are going to pay X. That will be due out of your pocket. “Out of your pocket” needs to be emphasized. (NM-Broker-001)

Yes, I think it [the disclosure] provides information in an even-handed way. But nonetheless, it is still confusing...the range of payments and how that might come into being. That is where consumers have a lot of difficulty, trying to think of what could happen in the future. (NM-Broker-001)

So, first glance, I’m assuming that they’re both going to be escrowed and it wasn’t until I got to the second page and realized that all the information was blank on the escrow amount that I realized that the second one wasn’t going to be escrowed. I think it’s not as clear whether or not it’s going to be escrowed. (NM-Lender-002)

Industry participants thought Limits on Increases was not emphasized

Both industry participants thought the tolerance language got “lost” on the page, and one suggested ways to highlight or display it more prominently.

“ I don’t think most people are going to read [tolerance language]. It just doesn’t stand out to me. If you wanted it to stand out more, I would put it in its own section over here and I would highlight the title like you do on all the other breakouts so that it’s not just stuck in—because it’s sitting there in the escrow section, it has nothing to do with escrows, and I know a big thing for the Consumer Financial Protection Bureau is that the estimated charges have to be accurate so I think that they should emphasize it more and break it out into its own section. (NM-Lender-002)

Ten percent [the tolerance] is a small enough number where I don't think it is going to make a huge difference to the borrowers. I don't think they have a clear understanding of what the tolerance is about. You need to have them understand why a tolerance was exceeded and if there is any action that they could take in order to try to rectify the situation. (NM-Broker-001)

Industry participants questioned the usefulness of Comparisons

The industry participants questioned whether consumers would actually use the items from the Comparisons section. In particular, they did not think that Lender Cost of Funds (LCF) measure was a useful measure to consumers.

“ Well, to be honest, I'm not sure why you have it [Comparisons section] in there...I can understand overall the total cost of the loan better than I can understand where they're going to be in five years. I'm not really sure what the five-year mark has to do with anything. Unless it was an interest only loan, you know what I mean? (NM-Lender-002)

I don't think they would [use Comparisons]. They don't think that way. They don't think that...this loan is better because I am paying 74% of my loan amount over the entire term of the loan; to put it as a percentage, I think it just takes it another step away from clarity. (NM-Broker-001)

The Lender Cost of Funds is not going to mean anything to any consumer, so it's totally irrelevant...they won't ask or they won't know or, and it's going to be hard to explain exactly what that is, and have them understand, so I don't know why that's in there. (NM-Lender-002)

[LCF] is something that I as a lender understand. I think as a borrower, it is not something that they care about much. It is like invariable: the first question that I always get, whether it is a repeat customer, referral, is, what is your rate? That is what they always ask. They don't ask the Lender Cost of Funds. (NM-Broker-001)

Industry participants' preferences for the name of the disclosure

The industry participants were presented the following possible names and asked to choose the best name for the disclosure:

- Good Faith Estimate (GFE)
- Mortgage Loan Estimate (MLE)
- Home Loan Estimate (HLE)
- Loan Offer Estimate (LOE)
- Home Loan Estimate Comparison (HLEC)
- Home Loan Comparison Estimate (HLCE)
- Loan Estimate Comparison (LEC)
- Loan Comparison Estimate (LCE)

They both selected Mortgage Loan Estimate (MLE) as their first choice and Home Loan Estimate (HLE) as their second choice.

Conclusion

In Round 5, the disclosure continued to work very well to meet the project's goals of comprehension, comparison, and choice. Consumer participants could integrate the information on page 1 to make complex trade-offs in choosing loans. They considered multiple aspects of the loan terms, including the interest rate, rate adjustments, projected payments, and whether taxes and insurance were escrowed. They understood the key loan terms and could articulate rational reasons for selecting one loan over another. With the new design of *Projected Payments*, consumer participants easily identified their total monthly payments and understood the maximum and minimum payments over time. In addition, they could typically understand that payment changes were related to interest rate changes over time. They saw the escrow information and easily understood if taxes and insurance were included in the payment or if they needed to add them in.

On page 2, consumer participants often noted *Services You Can Shop For* and commented that they would negotiate and/or shop for the services listed. In this round, consumer participants (more than in prior rounds) asked for more information and explanation about fees—what they were and why they were charged. They easily saw the totals for estimated settlement costs and estimated cash to close and could efficiently use the two-column layout. Consumer participants, at times, missed the tolerance language but when they found it, they understood it easily. The *AIR* and *AP* tables continued to work as they have in prior rounds; consumer participants typically understood the basic information but questioned unfamiliar terms, such as LIBOR.

Page 3 worked quite well for consumer participants in showing comparisons and basic Truth in Lending and other statutory information. When comparing two loans, they heavily used the *Comparisons* measures *In 5 Years* and *TIP*. The measures *APR* and *LCF* were confusing to consumer participants and were used less. Consumer participants could understand and paraphrase the *Other Considerations*. Finally, they understood the purpose of the *Verify Receipt* section and, in almost all cases, understood that their signature did not obligate them to the loan.

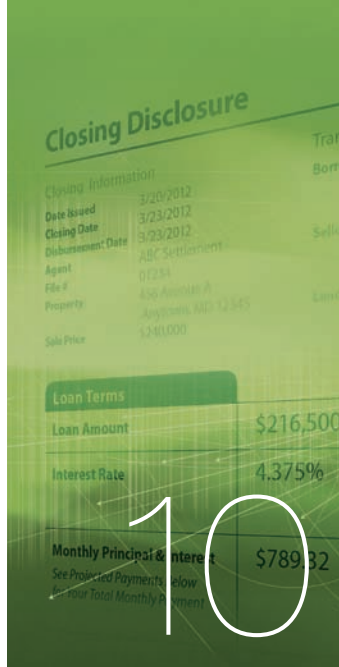
At this point, we made no additional changes to the Loan Estimate and turned our attention to the disclosure provided in connection with the closing of the transaction, the Settlement Disclosure. We anticipated that the design of the Settlement Disclosure would result in changes to the Loan Estimate.

SECTION 3. ITERATIVE TESTING OF THE CLOSING DISCLOSURE

Rounds 6-10 were more complex than Rounds 1-5. We had two goals: (1) developing the Closing Disclosure as a companion to the Loan Estimate and (2) ensuring that consumers could compare the Loan Estimate and the Closing Disclosure to identify differences.

As in Rounds 1-5, we varied the type of loan to ensure that the disclosure could accurately handle the detail of different loan types, including complex and infrequently used loan products. The testing changed its focus for each round. These changes were due to new information to be included or to design issues that arose during the testing. Thus, each round of testing could be organized differently or have a different focus.

- For Round 6 (Iowa), we tested only the Closing Disclosure. Its page 1 matched page 1 of the Loan Estimate, and it used a design similar to the current HUD-1 for the closing cost details. We used two designs for the Part 3 disclosures required by TILA and Dodd-Frank Act.
- For Round 7 (Alabama), we tested only the Closing Disclosure, with a focus on how to present the *Closing Costs* detail. In Design 1, we again used a design similar to the current HUD-1. In Design 2, we used an organization similar to the organization of page 2 of the Loan Estimate. We also tested an experimental worksheet that could be used before the Loan Estimate was required.
- For Round 8 (Pennsylvania), we tested two variations of an organization similar to page 2 of the Loan Estimate, one with line numbers and one without. We explored if consumer participants could compare the Loan Estimate and the Closing Disclosure to identify differences.
- For Round 9 (Texas), we continued to focus on how well consumer participants could use the Loan Estimate and the Closing Disclosure to identify differences. To that end, we continued to align the language, layout, and location of information to facilitate their ability to compare. We also adapted the escrow sections for partial escrow.
- For Round 10 (Maryland), we focused on fine-tuning. We used a highly complex loan product to test the consumer participants' ability to compare and to identify this loan product and its implication. We further aligned the language, layout, and location of information and fine-tuned the partial escrow information.



Usability Testing Round 6 – Des Moines, IA (November 2011)

Introduction

In Round 6, we began testing the Settlement Disclosure.³³ As we entered this second phase of testing, our overarching goal remained comprehension, comparison, and choice. For the early development of the Settlement Disclosure, we focused primarily on comprehension and design decisions and did not explore comparison or choice tasks. Because an ultimate goal was to enable consumers to compare the Loan Estimate to the Settlement Disclosure, we kept *Loan Terms*, *Projected Payments*, and *Closing Costs* on page 1 identical to the Loan Estimate. We used two prototype designs for page 2 of the Settlement Disclosure that were similar in format and content to the current HUD-1 settlement statement. We also tested various design options for different elements of the disclosure. For this round, we used one design for Part 1 (page 1 of the disclosure), and two different designs for Part 2 (the *Closing Costs* details) and Part 3 (other required loan disclosures and calculations). To investigate how the disclosure would handle different loan types, we tested two loan types: a 5/1 adjustable rate and a 30 year fixed rate.

Research Goals

In Round 6, we wanted to determine whether consumer participants could use the Settlement Disclosure to comprehend the financial details of settlement transactions, including the final *Loan Terms*, costs and fees, and mandated information about closing. To this end, we explored the following research questions.

³³ As noted earlier, in Round 10 (Maryland 2), we settled on the name, Closing Disclosure. Settlement Disclosure (SD) was the working title of this disclosure for Rounds 6 (Iowa), 7 (Alabama), 8 (Pennsylvania), and 9 (Texas), and we use Settlement Disclosure in our reporting and discussion of these results. For Round 10 (Maryland 2) and other discussions, we use the name, Closing Disclosure.

Consumers

Can consumers

- understand the costs and risks of this loan?
- use the disclosure to understand the financial details of the loan and settlement transaction?
- use the disclosure to understand the various mandated information?
- perform differently with either of the alternative designs?
- use only one of the three parts of the Settlement Disclosure?

Industry

Can lenders and settlement agents

- use the disclosure to explain the information related to the loan and the closing?
- suggest improvements to the final disclosure?
- prefer either of the alternative designs?
- have suggestions to ease industry implementation?

Who We Tested

For Round 6, we conducted 10 cognitive interviews in Des, Moines, Iowa (each lasting 90 minutes):

- eight consumer participants and
- two industry participants, one lender and one settlement agent.

For this round, we over-recruited for participants with low education and with little home-buying experience to ensure that the disclosure worked with these consumers. Consumer participants represented a range of demographics, such as age, gender, and income. Five of the eight consumer participants had a high school education, or some college, two-year school, or technical school. Three out of the eight consumer participants had no experience purchasing a home. We also tested two industry participants (a lender and a settlement agent). See *Appendix A. Demographic Summary*.

Interview Structure

In Round 6, consumer participants were given a simple scenario and did not receive a Loan Estimate. They did a think aloud on only Part 1 (Summary Information) of one design/loan and answered a series of open- and closed-ended questions. In Task 2, they did a think aloud on Part 2 (*Closing Cost Details*) of the same design/loan and answered a series of open- and closed-ended questions. They could refer back to Part 1, if necessary. In Task 3, consumer participants did a think aloud on Part 3 (*Additional Disclosures*) of the same design/loan and answered a series of open- and closed-ended questions. They could refer back to Parts 1 and 2, if necessary. They were also shown the alternate design as part of Part 3.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw loan types and designs in a carefully considered rotation or order. Consumer participants saw two loan types and two designs.

TABLE 23. Disclosure Rotations, Round 6

Participant	Task 1: Part 1	Task 2: Parts 1 & 2		Task 3: Parts 1, 2, & 3	
IA-001	Balsam Design 1	Balsam Design 1	Laurel Design 2	Balsam Design 1	Laurel Design 2
IA-002	Ficus Design 1	Ficus Design 1	Pecan Design 2	Ficus Design 1	Pecan Design 2
IA-003	Laurel Design 2	Laurel Design 2	Balsam Design 1	Laurel Design 2	Balsam Design 1
IA-004	Pecan Design 2	Pecan Design 2	Ficus Design 1	Pecan Design 2	Ficus Design 1
IA-005	Pecan Design 2	Pecan Design 2	Ficus Design 1	Pecan Design 2	Ficus Design 1
IA-006	Laurel Design 2	Laurel Design 2	Balsam Design 1	Laurel Design 2	Balsam Design 1
IA-007	Ficus Design 1	Ficus Design 1	Pecan Design 2	Ficus Design 1	Pecan Design 2
IA-008	Balsam Design 1	Balsam Design 1	Laurel Design 2	Balsam Design 1	Laurel Design 2
IA-Lender-001	Balsam Design 1	Balsam Design 1	Laurel Design 2	Balsam Design 1	Laurel Design 2
IA-Settlement Agent-002	Laurel Design 2	Laurel Design 2	Balsam Design 1	Laurel Design 2	Balsam Design 1

What We Tested—Design

For this round, the page 1 design was identical. For the subsequent pages, we had several variations.

Design 1 placed the *Summary of Transactions* on page 2. *Closing Costs* on page 3 served as a record of the funds' distribution, using a numbering system similar to the current HUD-1. The order of *Closing Costs* generally matched the Loan Estimate. However, the page did not indicate which fees made up the subcategory of Settlement Fees, which was instead indicated on page 5 in *Closing Cost Summary*.³⁴ On page 3, one column, *Paid at Settlement*, was subdivided into *From Borrower's Funds* and *From Seller's Funds*. The second column, *Paid Outside of Closing*, had four sub-columns, *Amount*, *Paid by*, *Paid to*, and *When*. Page 4 showed the *Limits on Increases* table, which compared estimated and final costs subject to tolerances, similar to the *Comparison*

³⁴ This subcategory of *Closing Costs* was titled *Settlement Costs* in the Round 5 Loan Estimate prototypes.

Chart on the current HUD-1. Page 5 used a three-column layout for the *Loan Disclosures*, *Loan Calculations*, *Other Disclosures*, *Questions*, and *Confirm Receipt* sections. For this design, the *Loan Calculations* were in prose, rather than a table.

Design 2 also placed the *Summary of Transactions* on page 2. *Closing Costs* on page 3 provided the details of the *Closing Costs*, using a numbering system similar to the current HUD-1. The order of *Closing Costs* generally matched the Loan Estimate. Like Design 1, the page did not indicate which fees made up the subcategory of *Settlement Fees*, which was instead indicated on page 5 in the *Closing Cost Summary*. On page 3, three columns distributed fees into *Paid from Borrower's Funds at Settlement*, *Paid from Seller's Funds at Settlement*, and *Paid Outside of Closing*. Page 4 provided details for the fees in the *Paid Outside of Closing* column in a separate *Paid Outside of Closing* table. A second table, *Limits on Increases*, compared estimated and final costs subject to tolerances, similar to the *Comparison Chart* on the current HUD-1. Pages 5 and 6 included the required *Loan Disclosures*, a table of *Loan Calculations*, required *Other Disclosures*, *Questions*, and *Confirm Receipt* sections. These two pages used a two-column layout.

What We Tested—Loan Type

We used two designs and two loan products:

- 5/1 ARM and
- 30 year, fixed rate.

The total was four disclosures. See Table 24. Loan Type, Round 6 for detailed differences across the loans.

TABLE 24. Loan Type, Round 6

Design 1 6 columns for <i>Closing Costs</i> 3 columns for other disclosures		Design 2 3 columns for <i>Closing Costs</i> 2 columns for other disclosures	
Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Balsam Bank	30 year 5/1 ARM @ 2.875% As high as 8% in year 9 Closing costs of \$4,842 Escrow	Laurel Bank	30 year 5/1 ARM @ 2.875% As high as 8% in year 9 Closing costs of \$4,842 Escrow
Ficus Bank	30 year Fixed Rate @ 3.875% Closing costs of \$4,842 No escrow	Pecan Bank	30 year Fixed Rate @ 3.875% Closing costs of \$4,842 No escrow

See Appendix I. *Closing Disclosures for Round 6 – Des Moines, IA* for the disclosures that were tested in Round 6.

Overall Findings

Summary Information, page 1

Consumer participants continued to understand the summary information on page 1 and could easily navigate the page to find answers to basic questions.

“ I like the way it’s laid out. Everything right there in front as far as the date, the agent’s name, the location of the property, lender’s location, the buyer, the seller, lender, bank, loan type. 30 years. Going toward loan terms. Loan amount and the interest rate is extremely low. Can this amount increase after closing? That definitely catches my eye there. And of course that would be based on the loan amount. It’s adjustable rate. And that’s going to go up and down based on what the rate is going to be at that particular time in the economy. Adjusting every year starting in Year 6. Can go as high as 8% in Year 9. (IA-003)

Everything is cut and dried at the top. It is a conventional loan, thirty-year fixed...When it becomes real important, the print is bigger and bolder. I am reading the loan terms and it is all self-explanatory, cut and dry...It is very simple. I do not remember seeing anything so simple, actually. (IA-004)

What would I say is the purpose? Well, I guess to try to lay everything down as plainly as possible. To give me as much information and make it as plain and as simple as possible for me. And that way I’ll feel as well informed as possible. (IA-003)

Just to give you an idea of how much you are borrowing, what your loan rate is, how many months or years it will be for, and any penalties, obviously, and what your closing costs are. Just the basics, really. (IA-005)

Both industry participants responded positively to the information on page 1. They liked the straightforward nature of the *Loan Terms* and felt that the clearly disclosed increases on interest rate and payment would be useful to consumers.

“ I like, right here, where it is talking about the rate and saying what it is and it can go as high as this, it adjusts. I think that is good that it spells it out because, although some of the borrowers are fairly astute, and some of them are just working class people who are wanting to buy a home, or refinance, or whatever, and this is not their long suit. I think the expectation that they are going to be savvy enough to know what to ask and what to look for is maybe asking too much. I think...it lays it out pretty straightforward. (IA-Settlement Agent-002)

There is a lot of information there but it is not a tsunami of information; it is understandable, it is well organized. There are clear sections. (IA-Lender-001)

Monthly Payment

Seven out of eight consumer participants correctly identified the estimated total monthly payment to the lender. The consumer participant who incorrectly answered had a no-escrow loan but added the taxes and insurance to her payment. She stated that this was her estimated total monthly payment that would be paid to the bank. Technically, this is an incorrect statement, but generally her understanding that she should add the costs of taxes and insurance to her loan costs was correct. Additionally, one other consumer participant with a no-escrow loan correctly identified her monthly loan payment and stated that she did not need to pay anything else per month (indicating that she thought taxes and insurance were included). Although technically correct for her payment to the lender, she did not fully understand how taxes and insurance would be paid. Although experienced consumer participants had strong feelings about wanting to have escrow, inexperienced consumer participants seemed confused by the concept of “escrow” and questioned what it meant.

The initial payment, plus insurance, plus taxes and insurance and that would be the estimated monthly payment \$993.84. Okay, I understand that now. Escrow information. Your monthly payment includes your taxes and insurance. Okay. (IA-003)

No escrow, so you must pay your taxes and insurance separately. It is telling you that you are paying it separately, which is something I would not do. I am not coming up with \$900 every six months. It is not happening. (IA-005)

This paper tells me I pay \$630.15 a month, so I would write \$630.15 a month [for my house payment] and then I would have a question about the \$430. (IA-002)

Estimated Settlement Fees

A few consumer participants were confused about whether the total Cash to Close included Estimated Settlement fees.

“ This \$4,842—is it in settlement fees: is that included in this \$16,000 or was it part of the \$4,000 for the down payment? (IA-002)

I think that [estimated settlement fees] would be part of [closing costs]. I would hope it would be part of it. There’s just got to be more of the language there. It’s just kind of hard to follow. (IA-004)

Questions after Reviewing page 1 Information

The page 1 information allowed consumer participants to articulate good questions about their loans, including why interest rate and payments changed and what would happen in the future. They seemed to understand risks and how to make trade-offs.

“ What would I do next? Well, I would start asking questions...And then I would be thinking about my career and the future. That payment could be that high in Year 9 and I’d be thinking as far as if am I staying at this job, what my income would be at that time. Would I be able to afford that payment if it does happen? What the economy is

like right now, the direction we're heading, our president we have at the time—I'll be thinking about all those things. (IA-001)

I just want to make sure or I want to find out what is making this [payment] fluctuate so much. And why there is just a set "this is what you are paying" and "this is what you are paying to", because the further out it goes the wider that number seems to get. This makes for more uncertainty if you are not loaded, so I have to watch my bottom line. (IA-006)

Level of Detail

Most consumer participants asked for more information and detail, particularly about the *Closing Costs*. Several consumer participants noted the difference between the estimated closing cost provided in the scenario and the actual closing cost provided on page 1. This discrepancy raised questions, and they wanted to learn what accounted for the difference.

“ I would be kind of nervous if that was all I got, because you just start thinking that, "okay that is too simple." (IA-006)

I would probably continue reading. I would want to look through page 4 and page 5 and try to determine why this amount [cash to close] is different [from the estimate provided in the scenario]. That is probably one of the first things I would try to figure out. (IA-008)

If I was planning on bringing \$16,450, and all of a sudden they say you need an additional, you know, almost another thousand dollars I would want to know why. (IA-003)

I would be curious as to what \$4,842 in settlement fees went to. (IA-006)

Closing Cost Details, pages 2, 3, and 4

Consumer participants understood that the basic purpose of page 2 was to break down *Closing Costs*, and they could identify the basic elements of the transaction. Page 2 helped answer some of the questions that consumer participants had after reading only page 1, the summary information.

“ It does help to have the second page, because it answers my questions [from page 1, regarding closing costs]. It saves a phone call. (IA-006)

I am going to closing costs now, so it would be page 2 of 6. The total real estate broker's fees, \$8,750; obviously meaning there are two different groups here that are working together and that is where they are getting this, and that is why they broke down that. (IA-006)

Both industry participants could use the summary transaction information as presented on page 2. They each suggested elements that could be improved. The lender suggested removing line numbers for items that are not represented on the disclosure. The settlement agent suggested that the down payment be more clearly presented—which was also a finding in the consumer testing.

“ One thing I am wondering here is the line, item numbers, is it really necessary for the lines that are [not used] to be included? Because, again, I try to put myself in a consumer’s chair. It is more numbers to look at and a bit distracting so, for example, on this one where you are talking about 104 and 105, there is nothing there. It does not pertain. It is distracting. That is from an aesthetic standpoint for content. This is confusing to me. (IA-Lender-001)

I know that each [line number] has its purpose and do not get me wrong, it is not that I am not taking the borrower through all of the charges, but I think that way it can be confusing... if there is a fee that is not part of the deal, eliminate that line because it is so much to look at. (IA-Lender-001)

Somewhere I think I would like to see that they still have to come up with that \$10,000, that additional \$10,000.... their down payment is \$14,000, and they already have the deposit. It says earnest money and it says principal amount of the new loan. But it doesn’t say anything about the additional \$10,000 although it does say cash to close \$17,000 at the bottom. But it’s not really spelled out. I think the clearer you can be the better. (IA-Settlement Agent-001)

Level of Detail

Despite the fact that consumer participants understood the basic purpose of page 2, some (particularly those who were inexperienced) were overwhelmed with the level of detail. Many struggled with the details of specific line items and had a difficult time integrating the information to understand their “bottom line” costs.

“ Honestly this is so much writing. I’m skimming over it and not really reading this thing. I don’t know what to look for, to tell you the truth. I guess I could look at the very bottom and see what that says. I don’t know. This is a bit much. Unless someone is right here explaining each line to me, I literally just wouldn’t understand. (IA-002)

I’d want everything explained to me. We bought our house 30 years ago and we just refinanced to cover some expenses three years ago. This does seem kind of foreign to me...I don’t think there’s enough information here for the layman to understand. (IA-004)

Although consumer participants understood the basic purpose of page 2 generally, they often got lost in some of the transaction’s details. They raised questions about specific line items and would often try to explain where different dollar amounts came from.

“ [Line] 120...total amount due from borrower \$143,410.28. Total paid for borrower \$126,038.84. My question is what is the difference? Total amount due and paid, I guess I don’t get that. (IA-001)

The \$2000 in reduction fees, is that part of the reduction fee and the closing costs? The seller...I want to know what kind of funds the seller's getting. (IA-007)

Transaction, total due from borrower, contract sales price \$135,000, total closing costs charged to borrower: \$1,400. I am not sure where it is. Oh, right here, \$8,410.28, seller's funds and paid outside of closing, \$3,107.00 which must have come out of the \$4,000 you gave. I am not sure. (IA-008)

I'd ask again exactly where is that difference coming from between the original at closing and what I see down here? Because I see a difference, and I can't tell right offhand where the difference comes from. (IA-003)

Down Payment

Based on the scenario, consumer participants looked for a specific line item that would show their down payments of \$14,000, but they could not find it. Not seeing the down payment confused some consumer participants and prompted them to ask questions.

“ How much was the down payment, \$14,000. Okay, so that totally confuses me, because I already gave them \$4,000...Actually, I am totally lost right there. (IA-006)

Line 200...the deposit of monies, \$4,000...I never saw \$4,000 as part of that, anywhere like that, on the front page or anywhere else. (IA-007)

600 Series

Both experienced and inexperienced consumer participants were somewhat confused by the 600 series, both the amount due and the reduction.

“ Total reduction...why is there a reduction? (IA-001)

I just see "due to seller." I don't see that the seller is paying anything. (IA-002)

Total amount of amount due to seller...I'm not familiar with that unless it's a Homesteader's or something...That's got to be a Homesteader's reduction or something. I'm not sure of that. (IA-004)

Differentiation of Costs/Fees

Consumer participants generally understood the costs and fees presented on page 3, although they did question some items, such as abstract, origination fees, and points. At the same time, unlike prior rounds with the Loan Estimate, fewer consumer participants challenged or questioned the fees. They seemed resigned to accept that these costs were expected transaction fees—and did not often comment that any seemed to be high or “extra.” A few consumer participants were concerned by the volume of undifferentiated fees. They commented that it was confusing to them, which suggests that a different categorization or logical order of fees may be helpful. One consumer participant suggested showing the individual costs and fees first and then the summary (exchanging the order of pages 2 and 3).

“ Now this is all just basic stuff; monitoring fee, taxes, appraisal fees...a recording fee for your deed, premium, daily interest charges, homeowners insurance, property taxes, and flood insurance. Okay, that breaks down a lot of that and makes it a lot more understandable. (IA-006)

It is cut and dry—pretty much giving you a breakdown of everything, of where your money is going, which is nice. I do not know if some people might even want to see them in reverse so you can see a breakdown first and then the totals, because you always want to know where your money is going, so if you are going to see a large total, I think it would be helpful to see it disbursed and then show the large total. I would rather see the breakdown first. (IA-005)

Paid Outside of Closing Column

Consumer participants did not readily understand the *Paid Outside of Closing* column. They were confused, particularly by the “when” column and the term “outside of closing.” Consumer participants preferred the Design 1 treatment of *Paid Outside of Closing*, but looked for an actual date under the “when” column.

“ That [when] is very vague. An exact date would be appropriate in my book. (IA-001)

I guess when it took place. But I don't see a date. So that's kind of confusing to me. Amount Paid By, Paid To and When. Okay. And it further confuses me by using before closing—that still doesn't help me...It's confusing. (IA-003)

I would try to figure out what's going on with that and pay outside of closing...does that come out of my pocket before other people, I mean for me to pay them? Or, is it incorporated in the money that I got to come give you guys right now?...Since they're outside organizations, are you guys paying them, or do I have to pay them? (IA-007)

I'm looking at aid from the borrower's funds at settlement \$7,000. Then paid from the seller's funds at settlement \$9,000. I see where it's paid outside of closing. I don't understand that I guess. (IA-004)

Escrow

Consumer participants seemed confused about the concept of escrow generally. Some were not sure how the escrow information on page 3 related to page 1, and what they saw as “discrepancies” in the numbers made them question the information.

“Escrow account information is where I’m at now, this is zero again. I never really understood escrow but I think, I have to look with my loan officer, you’re supposed to be in escrow right now...because I haven’t made any house payments. Or, do they call after I make my payments, or the longer I stay in the house the escrow grows, what determines how that grows? (IA-007)

Line 1300. Doesn’t that contradict what total monthly [estimated taxes and insurance] is?... Here [on page 1] it said \$430 a month. It says nothing here [on page 3]. I would question that. (IA-002)

What is confusing I think there maybe is homeowners’ insurance premium; if you jump back up to prepaid it says 12 months. Flood insurance is for 12 months. But, if you go down to escrow payment that coverage is not for a year. (IA-001)

Aggregate Adjustment

A few consumer participants were confused by line 1308, which provided an aggregate adjustment.

“It [Line 1308] is giving me a negative number, and that has lost me. I am assuming that is a negative...which I am assuming is the adjustment through these. I couldn’t answer that. I don’t know. (IA-006)

I would wonder what that aggregate adjustment is. (IA-008)

Fees Paid Outside of Closing

Most consumer participants understood the basic reasons why the fees paid outside of closing were presented on both page 3 and page 4. However, a few consumer participants were initially confused by the restatement of certain fees on page 4 in the *Limits on Increases* section—they did not initially see how this section was different than what was presented on page 3.

“This is just all the different fees again here. Is that the same as what I already read over here though, because now I am starting to feel like people are talking in circles. Yes, I am looking back and forth [between page 3 and page 4] because I am seeing things that they are kind of saying the same thing, but then they are not. Flood monitoring fee \$40, flood determination fee \$25. Okay, this is just some of the stuff I saw from the other page. Why are they doing that to me and repeating themselves? (IA-005)

The industry participants both liked page 3 and did not have many comments about the list of fees or the organization of the page. However, both did comment on the *Paid Outside of Closing* column.

“ I think, to the borrower, it is nonsensical. It is money I am paying out, whether it is here, there or somewhere else. I do not need to know the technical phraseology whatever is at settlement for outside closing. (IA-Lender-001)

Why would the broker fee be paid “outside of”? Before we finish that, I don’t think that “Paid Outside of Closing,” I don’t think the broker fee should be included there because it is paid at closing. It is part of the cost. (IA-Settlement Agent-001)

Limits on Increases

Consumer participants were confused about the *Limits on Increases* table. Some did not read the statement that described the limits and, therefore, did not understand that there was a 10% limit. Others saw the 10% limit but thought it applied to individual items. Some consumer participants were simply so unfamiliar with the settlement process that they could not contextualize the information and make sense of it. Only one consumer participant accurately described what the dollar amount difference meant.

“ If the 9.5% is the difference, what does zero over limit mean? (IA-001)

Increase loan estimate is 10%. 10% of \$300 is \$30. That’s more than 10%. I would have a question on that...It says increase between loan estimate and then final closing over here it says 9.5%. Well, \$300 and \$350 [is more than] 10%. (IA-003)

I am not quite sure what this 9.5% is that all of a sudden came flying in, because I know my loan is fixed at 3.875%, and I know this does not have anything to do with that. Why is there a 9.5% there? That is a question. (IA-005)

Cannot increase more than 10% with fees...I would be curious if that is ever or if that is only the first five years. (IA-006)

So, the increase between loan estimate and final closing costs 9.5%. I am not sure what that language means. (IA-008)

Both industry participants felt that the *Limits on Increases* table could be confusing to consumers. The lender wondered if consumers might think that the 10% applied to individual line items and not the total. The settlement agent felt that the concept of limits itself was confusing and would need to be explained more.

“ Here is a good one, the estimate was \$114 and actually turned out to be \$119. I think the individuals can understand but, again, by saying cannot increase by more than 10%. I think that throws up more of a red flag. There is one here, the title examination. This flies right in the face of that. The estimate was \$103 and it ended up being \$200. That is like an 80% increase, so what happened to 10%? (IA-Lender-001)

I think that's a confusing concept [limits on increases], yes. I mean a little more of a disclosure as to what those limits represents is needed. (IA-Settlement Agent-001)

Accounting for Differences

Consumer participants were typically satisfied with the information provided in the *Closing Cost Details* section and said it answered their questions. One consumer participant stated she would try to negotiate costs and fees down.

“ I would say a [rating of] 2...I would just say because of the non-clarity of a few things. Otherwise, the way that it is broken down with everything it is nice to see where your money is going. That is nicely done how they have that all broken down. (IA-001)

I had questions to begin with, with just the sheet [page 1] and these sheets basically answered all of the questions that I had before. (IA-008)

Well, if he or she has satisfied me as far as any questions that I had and as long as there wasn't any great difference in amounts that I was told in the beginning and that I have to end up coming up with, I would assume that we would begin signing I would imagine. (IA-003)

The amount of money for my closing costs is just exorbitant, but if that is the way this loan is going, that's the way it is going. I think I might do a little finagling here. I know they can lower these fees because the seller can take some of this responsibility too. I do not know if it is too late to bring that up but I might consider it. (IA-005)

Additional Disclosures, pages 5 and 6

Consumer participants generally understood the information in the additional disclosures (Part 3) section, but they had some confusion, particularly around *Negative Amortization*, *Total Interest Paid (TIP)*, *Annual Percentage Rate (APR)*, and *Lender Cost of Funds (LCF)*. Most consumer participants suggested that *TIP* and *LCF* be removed from the disclosure. Consumer participants also misunderstood aspects of the *Partial Payment* and *Refinance* items. All but one consumer participant said that they would sign the disclosure.

Negative Amortization

Consumer participants did not understand the term “negative amortization,” and one suggested including a term that is easier-to-understand.

“Is there not an easier word than amortization? I don’t even know what that word, amortization...I am not sure what that is. I am going to try to read it to see if I can context this. As my fifth grade teacher would say, read the context. “Under your loan terms you are scheduled to payments that are less on your loan...than the interest due them...” That is just confusing to me. I do not have a negative amortization...see and at this point I would be like okay it doesn’t matter. (IA-006)

Annual Percentage Rate (APR)

As in all prior rounds of testing, consumer participants often did not understand APR and questioned the difference between APR and their actual interest rates.

“Well that [APR] is confusing...because it says it is not your interest rate. It is the annual percentage rate, but this is not your interest rate. And it is not, it is 4.44%. So now I would wonder, and again not that it would matter, but I would wonder what that number really signifies. (IA-006)

And it says I got a 4.38% but that percentage rate is different from the very first percentage rate which was at 3.857% so why is there a difference in there? (IA-007)

Total Interest Payment (TIP)

Unlike in the rounds with the Loan Estimate, some consumer participants did not understand TIP and questioned how the figure was calculated. Others *did* understand TIP but still questioned why it was included in the disclosure. Most did not see the relevance or importance of the figure. Industry participants felt that TIP was potentially confusing to consumers and should be deleted.

“I would just basically want to know exactly how they arrived at that figure. They could explain that. But how I’d use it? Well, I don’t know how I’d use it. Just would depend on what the answer would be they would give me. (IA-003)

It [TIP] is sickening. Is it useful? Well it is useful, but it is very detailed. This is getting into wealth management or something. I don’t know...to put it on there is just kind of twisting the sword. 74.3% interest. I don’t think it is important to have that after the fact; it is just a sad reminder really. (IA-006)

The TIP I think can be deleted. (IA-001)

The total interest percentage, I would delete that. It is confusing...71.3%. That sounds like a lot. I do not think it serves a purpose. (IA-Lender-001)

Total interest percentage... is only if they pay the loan in full. I mean, so many mortgages don’t come to fruition, and aren’t paid. I don’t know that that’s material. (IA-Settlement Agent-001)

Lender Cost of Funds (LCF)

In general, consumer participants did not understand *LCF* and questioned why this figure was included in the disclosure, especially since the text said it was “not a cost to you.” *LCF* raised more questions than it answered, and most consumer participants suggested removing it. Industry participants agreed with this assessment and felt that *LCF* should not be included.

“The cost of funds used to make this loan.” “Lender Cost of Funds is not a cost to you.” You know what—after looking at that again I would probably ask them what that meant even though it does say—I’m glad it said this is not a cost to me. But if it’s a cost, then who pays it? (IA-003)

I am assuming that would be the closing stuff paid by the seller, but I just don’t know why it is there. (IA-006)

My first thought is that it [*LCF*] is whatever the bank had to pay to come up with all the paperwork and the shenanigans necessary; the 1% of this \$370,000 to put this thing together. (IA-006)

Actually I think [*LCF*] is probably kind of counterproductive. As the business lender, if your rate is 1.04%, why is this costing me five-point whatever? Why can’t you give me a lower point? (IA-Lender-001)

I can’t remember—is required by law? Do we have to disclose that? And I don’t know that that’s significant...if you’re not paying for it, why would it be significant? (IA-Settlement Agent-001)

Refinance

Similar to prior rounds, several consumer participants continued to read the *Refinance* section as saying that they cannot refinance in the future.

“Refinance. I would like to know that there’s a chance I may be able to refinance the loan. (IA-001)

The refinance, they do not guarantee you will be able to refinance your loan to a lower interest rate. Why not? If I qualify, why can’t I? (IA-005)

Partial Payment

A few consumer participants misunderstood *Partial Payment* as prohibiting them from paying more toward their loans in the future.

“Now that I am looking at this and thinking, the partial payment, that is kind of a drag because you could pay a couple of hundred extra bucks and expect that it goes to principal and they are not going to allow that...If your husband gets a bonus at Christmas time, and you feel like throwing an extra five hundred bucks, that can cut down the length of your loan. If you could do that at least once a year, make the full payment on principal, you can definitely cut down the length of the loan. That is a drag. (IA-005)

Confirm Receipt

All but one consumer participant said they would sign the disclosure in the *Confirm Receipt* section. Some consumer participants suggested that they'd like to get answers to their specific questions, however, before signing.

“ Yes, I would sign it...it's not binding me to anything. (IA-003)

I suppose if it says I am just signing it to say that I read it and looked at it, and got it, I would sign it...I would probably lose the money, but I think I could still get my way out of it. (IA-005)

This is just telling me that we've gone over everything and it's been explained to me. I've asked all the questions that I should ask if I don't understand. (IA-004)

Design Findings

Preference for Part 3, Design 2 over Design 1

Consumer participants were given two different designs for the display of additional disclosures (Part 3). Six consumer participants chose Design 2, one chose Design 1, and the question was not asked in the remaining consumer participant interview due to time constraints. In particular, consumer participants liked the two columns, the stacked check boxes, and the visual table of calculations.

“ To me it seems like when it's put in this format [Design 1] it seems like they're almost like hiding...I like this one [Design 2] because it seems like it's more out front. It's easier to read. (IA-003)

I think it's also easier when you go on when you're reading that the [check mark] blocks are on the outside where you can, right next to what you're trying to understand. (IA-007)

The way the check boxes are embedded in the wording can be confusing [in Design 1]. You really have to pay attention where in this [Design 2] it is laid out better and more specific. (IA-008)

I like the table format [in Design 2]...Probably because everything is spelled out here for you. Sometimes it is just easier to read tables than [information] embedded in paragraphs. (IA-001)

Industry Preference

The industry participants were split on design preference. While the lender preferred Design 2 (two-page, two-column) because of its detail, the settlement agent preferred the simplicity of Design 1 (one-page, three-column) because it contained all of the information in one page.

“At first glance it just says what is paid outside closing. This one [Design 1] gives more detail, which I like, but if you go back to this, it gives “Paid Outside of Closing” its own special section and there it gives you all of the details. (IA-Lender 001)

I think I like this format better [Design 2]...having it separate [on two pages] just bothers me. (IA-Settlement Agent-002)

Items Paid Outside of Closing

Consumer participants were provided with two options for the treatment of items paid outside of closing. Five consumer participants preferred Design 1, and two preferred Design 2, which included a table on page 3 that identified who paid a fee and when the amount was paid. (One consumer participant was not asked this question). Those who preferred Design 1 liked that the information was presented in one place and felt it was easier to understand.

“First of all I like everything mainly because it’s all right there [on Design 1]. You don’t have to flip from page to page. You have it all right there in one site, in one spot. And it’s easy for me going back and forth. It just seems to be cumbersome. (IA-003)

I like this one [Design 1]...Because it is all right up front. You do not have to be flipping back and forth. (IA-008)

Ordering Suggestions for Disclosure Contents

Almost all consumer participants felt that the order of the pages made logical sense. However, one consumer participant suggested a more deductive layout in which the individual costs and fees (page 3) would come before the totals (page 2).

“I think this is good because it tells you the main information up front and then it breaks it down for you. I think it is in a good order. (IA-008)

Yes, this is more of the breakdown of these totals. Maybe if you saw the smaller numbers at the beginning, and then the totals, it would not be as shocking, as stressful. Your brain could wrap around things a little bit easier just seeing the breakdown. Oh my God, the closing cost is what? And then looking at this you can see where your closing cost is going, instead of seeing that huge total at first. (IA-005)

Conclusion

Round 6 was the first testing of the Settlement Disclosure. The Summary, Part 1 (page 1) performed very well in giving consumer participants the basic *Loan Terms*, *Projected Payments*, and summary of *Closing Costs*. All but one consumer participant could accurately identify the total monthly payment. After reading Part 1, consumer participants raised good questions about their loans, but they wanted more information about *Closing Costs*. To answer one of our research questions: consumers could use only page 1 of the Settlement Disclosure, but the page was insufficient to answer their questions.

Part 2, *Closing Costs Details* (pages 2, 3, 4) presented mixed results in terms of consumer participant performance. Consumer participants liked the basic display of *Closing Costs* on page 2, but inexperienced consumer participants, in particular, were overwhelmed by the level of detail. In terms of specific line items, consumer participants had trouble finding the down payment and also experienced difficulty with the 600 series. On page 3, consumer participants basically understood the costs and fees, but struggled with some elements of the page, such as the *Paid Outside of Closing* column and the *Escrow* section. Unlike prior test rounds, consumer participants did not seem to question the costs and fees, and a few were overwhelmed by the volume of detailed information on page 3 of the Closing Disclosure. Consumer participants preferred the layout of Design 1, which consolidated the *Paid Outside of Closing* information, over Design 2, which spread the information over two pages. Page 4 provided consumer participants with numerous difficulties. They did not understand the concept of *Limits on Increases* and were particularly confused by the percentage of change listed at the bottom of the table.

Consumer participants, overall, understood Part 3 (pages 5, 6); however, some areas presented difficulties. Consumer participants did not easily understand *APR*, *TIP*, or *LCF*, and some suggested deleting these items. They also had questions about *Partial Payment* and *Refinance*, misunderstanding some of the language in each. In terms of design, participants strongly preferred Design 2 with its two-column format, floating check boxes, and the table format for calculations. Consumer participants noted that they would sign the disclosure and felt, overall, that it gave them the information they needed at this stage in the home buying process. Industry participant findings aligned strongly with consumer participants; the industry participants noted many of the same issues and had similar preferences for format.

Revisions to Prototype, Round 6

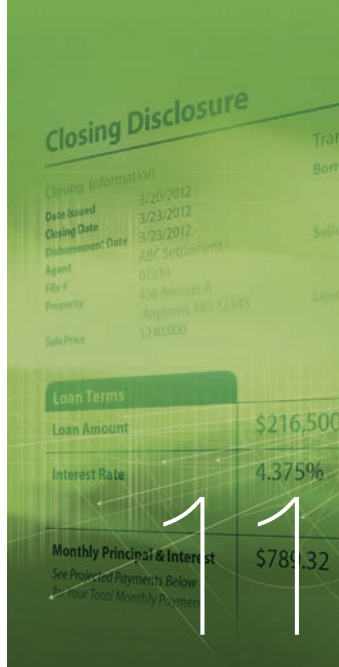
Based on the results of this initial round of testing, we changed the disclosure as documented in the table below. In addition, we developed a second design for Part 2, the closing cost details, based more closely on the design and organization of the Loan Estimate. In this second design, we matched the *Closing Costs Details* design of the Loan Estimate, including the same groupings of information and the section letters, and deleted line numbers to reduce the potential for information overload. We kept Parts 1 and 3 the same in both designs, except for minor adjustments for cross references.

TABLE 25. Revisions to Settlement Disclosure Prototype, Round 6

Revision	Reason
Top Portion, page 1	
No change	
Loan Terms	
No change	
Projected Payments	
Changed heading in <i>Escrow</i> row to the following: <i>Information about Escrow for Estimated Taxes & Insurance</i>	To give additional emphasis to the concept of "escrow"
Changed text by Escrow check box to read: "Your monthly payment includes the items listed in Section F. You must pay other items separately."	To identify the list of items that are escrowed
Closing Costs	
Changed text to read: " <i>Closing Costs</i> include \$5,839 in Settlement Fees. See Closing Cost Summary on page 2."	To indicate that <i>Settlement Fees</i> are a component of <i>Closing Costs</i> , to minimize potential inference that <i>Cash to Close</i> includes Settlement Fees Paid Outside of Closing (POC) items, and match change of language on page 2
Top Portion, page 2, Design 1	
Removed lender information and placed on page 5	To create room for other key information on page 2
Modified <i>Closing Costs Summary</i> table from Design 2, by separating <i>Settlement Fees Paid in Cash</i> into two rows: (1) "Settlement Fees Paid in Cash at Closing" and (2) "Settlement Fees Paid Before Closing." Moved table to first column of page 2	To present information more graphically and to give more emphasis
Created <i>Down Payment Summary</i> table in column 1 to show Deposit and Remaining <i>Down Payment Due</i> .	To address consumer difficulty with finding the amount of their down payments and their deposits

Revision	Reason
Condensed <i>Limits on Increases</i> (page 4) into a table: <i>Did Your Closing Costs Increase?</i> in column 2	To give this information a more condensed graphical presentation and to give it more emphasis by placing it earlier in the document
Created <i>Originator Fees Summary</i> table in column 2 based on <i>Originator Fees Summary</i> on page 5 of original version	To present information more graphically and to give more emphasis.
Paid Outside of Closing, page 3	
Changed title to <i>Paid Outside of Settlement</i>	To be more consistent with parallel heading of Paid at Settlement
Condensed the three columns of "Paid by," "Paid to," and "When" into a single column	To reduce the amount of space
Page 5	
Split this page into two separate pages using two-column layout and stacked yes/no boxes of Design 2	To provide greater readability
Loan Disclosures, page 4	
Included <i>Assumption, Demand Feature, Escrow Account Information, Late Payment, Negative Amortization, Partial Payment Policy, and Security Interest</i> on page 4	To group loan information
Included space for <i>Adjustable Payment table</i> and <i>Adjustable Interest Rate table</i> at bottom of page 4	To place this information with loan information
Adjustable Payment Information (API) Table, page 4	
Changed table (see below) by adding <i>Interest Only Payments</i> row	To ensure that the table provides better information in the case of interest only loans
Removed the word "Information" from title	To simplify the title
Adjustable Payment (AP) Table	
Negative Amortization? (Increase in Loan Amount)	NO
Step Payments?	NO
Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Monthly Principal & Interest Payments	
First Change/Amount	\$855 starting at 61st payment
Subsequent Changes	No Subsequent changes
Maximum Possible	\$855 starting at 61st payment

Revision	Reason
Other Disclosures, page 5	
<i>Included Appraisal Copy, Contract Details, Liability after Foreclosure, Refinance, and Tax Deductions</i>	To group this information
Questions and Confirm Receipt	
Changed to say "Complete this transaction" instead of the "accept this loan" language	To use language more consistent with the point in time of the closing



Usability Testing Round 7 – Birmingham, AL (December 2011)

Introduction

For Round 7, we combined aspects of the Round 6 (Iowa) disclosures for one design and created a new design that displayed *Closing Costs* in a format more similar to the Loan Estimate. For Design 1 of Round 7, we used Round 6 Design 1's approach to the closing cost details, thus eliminating the need for consumers to look at a separate page to find the needed additional detail. We used Round 6 Design 2's more visual approach to the Part 3 information, using the two-column design and stacked checkboxes to allow consumer participants to better see the check boxes and putting Loan Calculations into a table. Page 1 remained the same with some slight variations. With these features the same in both designs, the differences in design centered on Part 2, the closing cost details. Design 1, closely matched the current HUD-1 in its presentation of closing cost details as in Round 6, and Design 2, followed the structure and closely matched the format of the closing cost details in the Loan Estimate.

The overarching goal for this round was comprehension and comparison. Specifically, we wanted to determine whether consumer participants perform better with one of the designs to understand the financial details of settlement transactions, individual costs and fees, and mandated information about closing. We also wanted to determine if consumer participants could compare the Loan Estimate with the final Settlement Disclosure to identify key changes from the estimate to the final version and whether they could account for those changes. Because the focus of this round of testing was on closing cost details rather than on the disclosure of complex *Loan Terms*, we used only one loan product: a 30 year fixed rate loan with escrow to focus the consumer participants on the design variables.

We also tested with four participants some limited modifications to the Loan Estimate and a loan worksheet that closely matched the Loan Estimate. To the first page of the worksheet, we added two different disclaimer messages that stated that the worksheet was not an official Loan Estimate. We also tested some limited modifications for the Loan Estimate. Because some consumer participants had struggled with easily recognizing an interest only loan, we added clarifying language to *Loan Terms*. We also continued to refine the language about Escrow in *Projected Payments*. Finally, we adjusted the presentation of elements within the *Adjustable Payment (AP)* table on page 2.

Research Goals

For this round, we focused on how consumer participants used the Settlement Disclosure to understand settlement transactions, including final *Loan Terms*, individual costs and fees, and mandated information. To this end, we explored the following research questions.

Consumers

Can consumers

- use the disclosure to understand the financial details of the loan and settlement transaction?
- use the Loan Estimate and Settlement Disclosure together to compare changes in loan terms and costs and identify the reasons for those changes?
- perform differently with the two designs?

Industry

Can lenders and settlement agents

- use the disclosure to explain the information related to the loan and the closing?
- have suggestions to improve the Settlement Disclosure for consumers?
- prefer either of the two designs?

Who We Tested

For Round 7, we conducted ten cognitive interviews in Birmingham, Alabama (each lasting 90 minutes):

- Eight consumer participants
- Two industry participants, one lender originator and one settlement agent

We again over-recruited consumer participants with low education and with little home buying experience to ensure that the disclosure works with these consumers. Four consumer participants had no home buying experience and four had some home buying experience. Five of the eight consumer participants had less than a college education. In this round, six of the eight consumer participants were African-Americans. We also tested two industry participants (a lender originator and a settlement agent). See *Appendix A. Demographic Summary*.

For the worksheet testing, we interviewed four additional consumers with varied demographics who looked only at two sample worksheets and a modified Loan Estimate. Because these one-hour interviews were shorter and not solely focused on the development of the Loan Estimate or Settlement Disclosure, we did not count these participants in the project total of participants.

Interview Structure

In Round 7, consumer participants received a diagram of the overall home-buying process to help them understand when they would receive a Loan Estimate and a Settlement Disclosure. This brief introduction was particularly important for consumer participants with no home-buying experience. The moderator showed the consumer participants an initial Loan Estimate disclosure and reviewed it with them, following a script—approved by the Mortgage Disclosure Project Team—that described the Loan Estimate. They again received a diagram of the home buying process and were shown when they would receive the Settlement Disclosure. After this orientation, consumer participants completed three tasks:

- In Task 1, consumer participants did a think-aloud on the Settlement Disclosure (either Design 1 or Design 2) and compared it to the initial disclosure. They then answered a series of open- and closed-ended questions.
- In Task 2, participants did a think-aloud of the alternate design and answered questions about the different designs.
- In Task 3, participants focused on the last two pages of the Settlement Disclosure and answered questions about *Loan Disclosures*, *Loan Calculations*, and *Confirm Receipt* sections.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw the two designs in a carefully considered rotation or order. Consumer participants saw one loan type and two designs. The rotation divided experienced and inexperienced consumers evenly.

TABLE 26. Disclosure Rotations, Round 7

Participant	Home Buying Process	Loan Estimate	Settlement Disclosure	Settlement Disclosure
AL-001-Experienced	Same	Ficus Bank	Design 1	Design 2
AL-002-Experienced	Same	Ficus Bank	Design 2	Design 1
AL-003-Experienced	Same	Ficus Bank	Design 1	Design 2
AL-004-Experienced	Same	Ficus Bank	Design 2	Design 1
AL-005-No Experience	Same	Ficus Bank	Design 1	Design 2
AL-006-No Experience	Same	Ficus Bank	Design 2	Design 1
AL-007-No Experience	Same	Ficus Bank	Design 1	Design 2
AL-008-No Experience	Same	Ficus Bank	Design 2	Design 1
AL-Lender Originator-001	Same	Ficus Bank	Design 1	Design 2
AL-Settlement Agent-002	Same	Ficus Bank	Design 2	Design 1

What We Tested—Design

For this round, page 1 remained identical (with the exception of certain cross-references). For the subsequent pages of the Settlement Disclosure, we had several variations.

Design 1 placed the *Summary of Transactions* on page 2. To the top of that page, we added four small tables: *Closing Costs Summary*, *Down Payment Summary*, *Did Your Closing Costs Increase?* and *Originator Fees Summary*. Each table addressed an issue from the previous round. *Closing Costs* on page 3 continued to use numbering similar to the current HUD-1 settlement statement, with modifications to the order of costs to match that of the Loan Estimate. One column, *Paid at Settlement*, was subdivided into *From Borrower's Funds* and *From Seller's Funds*. The second column, *Paid Outside of Settlement*, had two sub-columns, *Amount* and *Paid By/To/When*. Pages 4 and 5 used a two-column format based on the results of Round 6. Page 4 included the

Loan Disclosures. Page 5 included *Loan Calculations*, *Other Disclosures*, *Originator Information*, *Questions*, and *Confirm Receipt*. The *Loan Calculations* were in a table format. For this design, *Escrow Account Information* was in the first column of page 4.

Design 2 placed the closing cost details on page 2 and took a new approach based on page 2 of the Loan Estimate. Two black tabs divided the page into *Settlement Fees* and *Settlement Costs*, the same two categories on the prototype of the Loan Estimate. Within the two tabs, fees were placed into subcategories that matched the Loan Estimate subcategories. These subcategories included A. *Origination Charges*, B. *Services Borrower Did Not Shop For*, C. *Services Borrower Did Shop For*, D. *Taxes and Other Government Fees*, E. *Prepays*, and F. *Initial Escrow Payment at Closing*. This design used 4 columns for the fees: *Paid at Closing by Borrower*, *Financed in Loan Amount*, *Paid at Closing by Seller*, and *Other Payments*, subdivided into *Borrower* and *Other*. We included rows for calculating the subtotals for the *Total Settlement Fees* and a separate row for the *Total Settlement Costs*. In addition, we included separate rows for *Calculating Closing Costs*. In this design, the fees had no line numbers.

Page 3 provided the Summary of Transactions and included two other tables. One table showed *Calculating Borrower's Cash to Close*, which matched the *Calculating Cash to Close* table on the Loan Estimate, and the other was a condensed version of the *Limits on Increases* table from Round 6. Page 4 included the required *Loan Disclosures*. Page 5 included the table of *Loan Calculations*, required *Other Disclosures*, *Questions*, and a *Confirm Receipt* sections. We also added two tables with the *Originator Information* and *Originator Fees Summary*. For this design, *Escrow Account Information* was in the second column of page 4.

What We Tested—Loan Type

For the Loan Estimate, we tested one design and the same loan product as the Settlement Disclosure. For the Settlement Disclosure, we tested two designs and one loan product:

- 30 year, fixed rate.

The Loan Estimate and Settlement Disclosures differed in the *Taxes and Insurance*, the *Closing Costs*, and the *Cash to Close*. See Table 27. Loan Type, Round 7 for more details.

TABLE 27. Loan Type, Round 7

Loan Estimate (one design)			
Name of Loan Originator		Loan Features	
Ficus Bank		30 year Fixed Rate @ 4.125% Taxes & Insurance of \$127 Escrow Cash to Close of \$14,222 Closing costs of \$4,125	
Settlement Disclosure			
Design 1 Similar to HUD-1 format Similar to HUD-1 line numbering		Design 2 Similar to Loan Estimate No line numbering	
Name of Loan Originator		Loan Features	
Ficus Bank		30 year Fixed Rate @ 4.125% Taxes & Insurance of \$246.68 Escrow Cash to Close of \$16,331.79 Closing costs of \$4,280	
Name of Loan Originator		Loan Features	
Ficus Bank		30 year Fixed Rate @ 4.125% Taxes & Insurance of \$246.68 Escrow Cash to Close of \$16,331.79 Closing costs of \$4,280	

See Appendix J. Closing Disclosures, Worksheets, and Loan Estimate for Round 7 – Birmingham, AL for the disclosures that were tested in Round 7.

Overall Findings

Summary Information, page 1

Comparing and Understanding Differences between Loan Estimate and Settlement Disclosure

Both experienced and inexperienced consumer participants could easily use the Loan Estimate and the Settlement Disclosure to compare and identify basic differences between the two documents. After viewing the Loan Estimate and before viewing the Settlement Disclosure, consumer participants most often wanted to verify the loan amount, interest rate, monthly payment, and *Closing Costs*. Page 1 of the Loan Estimate and the Settlement Disclosure allowed consumer participants to verify these elements and to see key differences between the two disclosures. They identified higher monthly loan payments, changes to estimated taxes and insurance, and cash to close. They also easily identified the changes in the total monthly payment and the escrow information.

“*The loan amount and interest rate are the same. And then monthly principal and interest. I guess the mortgage insurance ended up being a little less than was estimated. So that’s always good. And then estimated taxes and insurance went up... and then cash to close went up a couple of thousand [dollars].* (AL-002-Experienced)

Estimated tax and insurance and the mortgage insurance is all totally different. It’s higher. And the closing costs are much higher, and money you have to bring to the table is much higher. (AL-006-No Experience)

I do notice on this Settlement Disclosure they do a show an increase in the estimated amount that would go into escrow for taxes and insurance. Which is almost \$100 more, yes, over \$100 more...I’m looking at the Settlement Disclosure, and I do see a different pricing as far as the escrow amount that would be contributed each month. (AL-003-Experienced)

Raising Questions

Consumers tended to compare the two disclosures, activating the participants to find the cause of the changes. By the end of page 1, as we saw in the previous round, consumer participants often independently raised an immediate question: why had the terms of the loan changed? All consumer participants said their first step was to identify what changed and why. Some would examine the details of the settlement statement to answer these questions while others would call their loan agent. A few consumer participants felt that the changes would mean that they would choose not to proceed with closing.

“*Initially if I were to receive this the day of closing I would have a big concern about the amount contributed to the escrow account and the closing costs—that’s a very big difference...please explain what has happened between now and the time of the Loan Estimate Disclosure received.* (AL-003-Experienced)

[Using Design 1] I would want someone to explain. Even though this is on paper to explain exactly why this happened and why this was not indicated on the Loan Estimate that I

received before. Because that would be a shock. You are thinking you are closing on that particular day and the pricing, your cost, everything has changed, the dynamics of everything. (AL-003-Experienced)

Why did the estimated taxes go so much higher? Because you're looking at more than \$100 here, and it's made my payment jump about \$120. And I would ask him to go back over the closing costs versus this because there's a bunch of fees that have been charged that I was not charged in the estimate. (AL-006-No Experience)

Industry participants also believed that the information answered initial questions that consumers would have and would be easy to explain as part of settlement. They specifically noted the organization of the disclosure and the clear loan terms on page 1 as elements that would help consumers.

“ *Well, I have already looked at it, and I like the format. I want to say that upfront because the Truth-In-Lending is the worst form ever. If this is going to replace the Truth-In-Lending, I think this is better and is consumer friendly. (AL-Settlement Agent-002)*

I think some consumers are going to have trouble with any form, but I think this is laid out, or it lays out in bigger print and it is easier what the main questions are that consumers are going to have. (AL-Settlement Agent-002)

I like how it's detailed instead of lump sum together like it is on the [forms] that we currently utilize. I like how the taxes and insurance are grouped on a monthly basis so that you can see what the monthly charge is. I like that and the fact that the settlement page and the cash to close is all detailed out. I really like how it's detailed. (AL-Lender Originator-001)

Closing Cost Details, pages 2 and 3 Accounting for Differences

Overall, Design 2 performed better in helping consumer participants find out what had changed from estimate to final settlement. Using pages 2 and 3, both experienced and inexperienced consumer participants could find the costs that had changed more easily with Design 2. After seeing the differences on page 1 between the Loan Estimate and the Settlement Disclosure, as described above, consumer participants wanted an answer to their question, “What changed?” They used pages 2 and 3 to find what accounted for the differences. Despite the same level of itemization, the design and organization match between the Loan Estimate and Design 2 of the Settlement Disclosure allowed consumer participants to find differences more easily than in Design 1. We often observed them put page 2 of the Loan Estimate and Settlement Disclosure next to each other and go through the fees one by one. Consumer participants called it more logically organized; they could find the changes more easily that had increased costs, identify specific fees and who paid them, notice that fees had shifted from items they could shop for to items the lender selected, and identify that new fees had been added.

“ [Using Design 2] The difference in the cash to close between the estimate and the settlement...includes actual taxes and what not that you didn't have before. And then, of course, several things went up like the homeowner's insurance premium showing under prepaid. It's \$904 here, and it's \$450 under the estimate. And the prepaid interest is higher. Well, that could just account for more days because it's still the same per day that we discussed earlier. And the escrow is more. The actual was \$740.04 and then the estimate was \$254. (AL-002-Experienced)

[Using Design 2] It looks like more items here that I did not shop for [changed]. In B, yes, Section B. It looks like here, Section C here has less, so that changes that calculation. Real Estate Broker Fees plus the A, B, and C, that makes that amount. There's the difference right here. (AL-004-Experienced)

[Using Design 2] The settlement cost. They've added in a deed cost and a mortgage tax and recording fees. Well, the recording fees are over here, but they're higher from the disclosure. Prepaids. They've added in homeowner's insurance to an XYZ Company, and a windstorm insurance premium. And prepaid interest is higher. And then the initial escrow payment at closing, homeowner's insurance is higher. And they've added a windstorm insurance company again. Nothing for condo. Calculation is a lot higher. It's \$3741.40. Calculating closing costs is \$7,458.40. (AL-006-No Experience)

[Using Design 2] "Services Borrower Did Not Shop For." Credit report, flood damage—the flood determination fee went up...the survey fee went down. The pest inspection actually went up. I wonder is that from what the actual buyers shop for it—I wonder, is that why it's a different rate? It's something we were actually able to choose on our own. Yes, a lot of these have gone up. (AL-008-No Experience)

For a side-by-side comparison, you could actually see where the increases are and it kind of spells it out better on the loan [on Design 2]. (AL-005-No Experience)

Finding Fee Differences

Consumer participants had more difficulty finding the differences in fees in Design 1, even though the level of itemization in the two designs was identical. Consumer participants were less able to identify what accounted for the changes from the Loan Estimate to the Settlement Disclosure. A few said they felt overwhelmed by the list of fees and could not easily relate them back to the Loan Estimate.

“ Like I said, [Design 1] is a bunch of numbers that you are not sure how they came up with them. The information is not really clear. The other one [Design 2] had everything sectioned off where you could see the total and how they arrived at whatever the figure was that you needed for closing and everything else. This one here has the numbers on it, but it is too much to try to figure out how they came up to it for me. (AL-001-Experienced)

Initially, you would think it [Design 1] would be an easy follow. But once you get to page 3 [the detailed Closing Costs], it's hard to locate what items you need [to compare]. (AL-004-Experienced)

[Using Design 1] I'm overwhelmed at this point. It's just a lot going on. I know we have to take out time to look through all of it, but at this point I would just be so kind of taken back on all of the breakdowns. (AL-007-No Experience)

Consumer Activation

Consumer participants did not seem activated by pages 2 and 3 to ask many questions or to take action about the differences from Loan Estimate to Settlement Disclosure. With both designs, few consumer participants stated what they would do once they identified the source of the differences. Clearly, they were activated to find the differences at the end of page 1, and they could find where the change occurred on pages 2 and 3. However, it is unclear why so few made action statements while viewing pages 2 and 3. These statements would have shown that they wanted to understand why the change occurred (e.g., "I want to call my loan officer to discuss these changes" or "I'd like to go over each of these fees with my agent"). For most, the detail work of looking for the answers may have overwhelmed the larger purpose of not merely "finding" what had changed, but understanding why the change had occurred.

Additional Disclosures, pages 4 and 5

As we have seen in previous rounds of testing, consumer participants could understand nearly all of the information presented on pages 4 and 5. However, the terms and sections that raised questions for consumer participants and confused them were the same as in previous rounds of testing.

Unfamiliar Terms

A few consumer participants, especially those with no experience, were unclear about the meaning of *Demand Feature*, *Negative Amortization*, and *Credit*.

“ I would want them to explain that to this demand feature. That is something I would want explained more. Even though I do not have it, I would want to make sure I can have it in the future. [AL-001-Experienced]

"Your loan does not have a demand feature." I would need to know exactly what does that mean. (AL-008-No Experience)

I was trying to figure out what they mean by the credit [under Finance Charge in the Loan Calculation section]. I'm assuming what they're saying is the amount that the loan would cost me. But they're saying the credit. To an everyday person I would say credit means you are crediting me something. But I don't know if I would necessarily tie that to the loan. (AL-005-No Experience)

I would need someone to explain that [negative amortization] to me because I've never seen that, I don't know what that is. (AL-007-No Experience)

Total Interest Payment (TIP)

Unlike Round 6 (Iowa), most consumer participants felt that *TIP* was helpful, although one said that it was scary to see the figure. Industry participants both believed that *TIP* was unnecessary and uninformative to consumers.

“*[TIP] just gives you a bigger picture beyond just your monthly percentage rate. This can give you a breakdown down to your total amount, I guess, per year or over the entire life of the loan, so it gives you more in depth. I guess if you’re a math person, this really lets you know what you’re paying and how much interest you’re paying. [AL-004-Experienced]*

“This rate is the total amount of interest you will pay over the loan term as a percentage of your loan amount.” That’s telling me I’m actually going to have to pay that fixed percentage rate for over 30 years...that has something to do with the money I’m actually going to paying over the 30 years. Yes, it’s very helpful. (AL-008-No Experience)

I’m looking at the estimate—74.4. Is that a percent? That’s scary. That’s like a lot of interest. (AL-007-No Experience)

I’m not saying that it’s not accurate, but there’s just some things you just don’t want to know. If somebody told you that the total amount of interest you’re going to pay is 75% over the course of the loan...there’s just some things I’d rather not know! (AL-Lender Originator-001)

TIP is 74.47%, and no, I do not like it at all...I don’t see any use for it at all. (AL-Lender Originator-001)

Lender Cost of Funds (LCF)

All but one consumer participant wanted the *LCF* eliminated. Only one consumer participant understood its relationship to the interest rate she was getting. Industry participants also believed the *LCF* was confusing and suggested it be removed.

“*This is not a direct cost to you.” I mean if they’re going to list it, if this is going to be part of the calculation the Cost of the Funds used to make this loan—it’s not giving any information...it’s not really telling me anything basically. If it’s not a direct cost to me—no, I don’t think it should be included if it’s nothing that’s affecting me directly or if it’s not something that I’m being charged or billed. (AL-003-Experienced)*

[LCF is] showing me what it costs the bank to fund the loan. To be honest [it would not be useful] because it would make me angry...Because I’m paying a loan and it only costs the bank less than 2% to fund the loan but I’m paying the interest rate and you’re making nothing but profit and I’m paying more interest. It’s probably better not knowing. (AL-005-No Experience)

I notice the “Lender Cost of Funds” but they said that...the cost is not directed to me. So, hey whatever! (AL-007-No Experience)

Maybe [LCF is] the work that has to be put into getting your loan, the amount that would cover that? I don’t know that it’s useful to me in that I don’t have to pay it. (AL-007-No Experience)

If you make this loan—it’s saying it’s not a direct cost to me. Would that be something that would be inside of the loan or would that actually go towards the down payment? Would that be over my 30-year payment or would that actually go in my closing cost? (AL-008-No Experience)

It’s great to know. I probably won’t do anything with it, but this is impressive that they would pay this amount to get—they paid something possibly to borrow the money to give to me. I think this is informative. (AL-004-Experienced)

I do not even know what that means, the “Lender Cost of Funds.” I do not know what that means, 1.35%. When I say I do not know what it means, to me that would be confusing. (AL-Settlement Agent-002)

That [LCF] is a new term. I guess that is what it is costing the lender for the money that has been loaned...I do not know; I have never seen this. I mean that just does not seem a pertinent thing. (AL-Settlement Agent-002)

No [it is not useful to a client]...I guess if they were just out shopping for a loan and they really wanted to know that one was 1.35% and one was 1.34% but the bottom line is you got to pay fees to get a loan anyway, so it is what it is. (AL-Lender Originator-001)

Refinance

As in previous rounds, consumer participants continued to misread the *Refinance* text as saying they cannot refinance.

“ *I would like to know more about...the refinance. I would like to see if there is a way, if I did want to refinance my house, that I would be able to. (AL-001-Experienced)*

“You may not be able to refinance your loan to lower your interest rate and payment in the future with us or with another lender.” When they say “you may not be able” are they saying definitely cannot or are you saying you may or may not? Maybe they could say something like “at the lender’s discretion you may be able to refinance at a later time”, but “you may not be able to” —that’s kind of broad to me. (AL-005-No Experience)

Confirm Receipt

Most consumer participants would sign the disclosure in the *Confirm Receipt* and understood there was no consequence if they did not proceed with the loan. A few consumer participants would have liked more information about signing because they feared they would be accepting the loan.

It is just saying I am signing for all the information about that loan, not that I am actually going through with it. I have the option to walk away from the deal if I wanted to. (AL-001-Experienced)

It shouldn't be any consequence because, you know, it says you don't have to complete the transaction...It's just like saying you received the form. (AL-007-No Experience)

You are accepting everything that's in this packet, you're agreeing to it. [If you signed the form and then chose not to close on the loan] you'd have to go either to arbitration or you'd be up a creek. (AL-006-No Experience)

Design Findings

Preference for Design 2 over Design 1

Most consumer participants preferred Design 2, the one that matched the organization and design of the Loan Estimate; only two preferred Design 1. The majority preferred Design 2, commenting on several elements: the ordering of information on page 2, the headings, the calculations on page 2 ($A + B + C =$), and the breakdown or flow of numbers. In comparison, consumer participants often said that Design 1 presented a lot of numbers without a clear organization to help the consumer make sense of them.

“ I do like a couple of things on here [Design 2]...The calculation statement right here, it shows where you come up with the \$3,717. A, B, and C. It makes more sense when you see it coming, total fee paid by borrower. You know how they came up with that amount...You can pretty much add how they come up to these figures. It makes more sense to me. (AL-001-Experienced)

With this one [Design 2], it was more categorized, more detailed. All information pretty much fit under the initial heading. The breakdown was better. It categorized a lot of the information better with the different columns, the headings. (AL-003-Experienced)

[Using Design 1] I'm all over the place. The information is not in a form that's easy for me to follow. To be honest when I first look at it I just see words. I don't see any meaning to the words. I see words and numbers. I really have to make myself focus to see what the words and numbers are, and even then kind of jumping all over the place to make meaning out of it. (AL-005-No Experience)

I like this one [Design 2] because it's broken down into categories and things with the things underneath. But this one [Design 1], it feels like it's all going in together. The sections are kind of highlighted, but this one overall to look at and to find out what you're looking for is easier. (AL-007-No Experience)

Two inexperienced consumer participants preferred Design 1. These consumer participants seemed to prefer seeing the summary (seller/borrower transactions) first and the detail (detailed

costs and fees) later. They commented on several elements, including the more prominent side-by-side seller and borrower transactions on page 2, the headings, and the line numbers. One consumer specifically mentioned wanting line numbers. These participants responded to how the headings separated borrower-paid and seller-paid items more clearly.

“ I like this one [Design 1] much better because...you can do side-by-side with the seller and the borrower’s transactions at the same time. And all your breakdowns of fees and originations and title stuff is all on one page...You’re not having to flip pages back and forth to find the stuff. It’s all self-explanatory on one page. (AL-006-No Experience)

I actually like [Design 1] better...Over here with the columns [on Design 2] you kind of get thrown off once you read everything but over here it actually has the heading of what the actual seller paid for, what the actual buyer is paying for. The headings are much better. (AL-008-No Experience)

[Design 1] actually has the numbers. The lines. So if I’m actually having a meeting with the broker or the real estate they can tell me exactly what line to look on versus Design 2, you have to actually just try to figure everything out on your own. This is just more detailed and everything has a number line to it. (AL-008-No Experience)

Industry Preference

Unlike consumer participants, the industry participants both preferred Design 1, primarily because of the order on pages 2 and 3. The industry participants liked having the side-by-side summary of borrower and seller costs on page 2 and the detailed fees on page 3.

“ I personally like the first design better only because it seems to flow better. Everything is just on one page and straight down. You’re not having to look at separated columns and having to...go back and forth to see some of the information. (AL-Lender Originator-001)

Even though I see the reasoning behind why the settlement fees and settlement costs and such are separated out [in Design 2]—because you’re basically separating out your fees and your escrows—but to me, it’s too choppy. It should be straight line. The first format [Design 1] seems much better just from a reading standpoint and from an understanding standpoint. It would be easier to explain...(AL-Lender Originator-001)

I am going to say [I prefer] Design 1...I think that is more workable to me. (AL-Settlement Agent-002)

I guess I would prefer numbers [in Design 1] for the mere reason of when I am dealing with a mortgage company a lot of times they will tell me to change line 503 and that is easier for me than okay you need to change this. I mean it is easier for me to go and find line 503, then having to look for the appraisal fee, so to speak. (AL-Settlement Agent-002)

Concerns with Design 1

Consumer participants independently raised issues and concerns with Design 1. The organization of Design 1 did not seem to logically match what consumer participants expected to find as they looked for differences between the estimate and the final settlement disclosure. At times, consumer participants became confused by settlement costs, fees, and how the numbers fit together to create a holistic picture of what they owed.

“ [Using Design 1] Which are the settlement fees that you would be paying at closing? It looks like the ones on line 1100. Paid by borrower is \$4,280, \$3,717 and \$563. Do you know, or can you tell me what makes up this number? Not really, because it [Design 1] does not tell you how it came up with this number. (AL-001-Experienced)

[Using Design 1] I don't know if you're saying this is the total the bank paid for me and that's a little misleading because I paid the \$3,000. Or are you saying I'm paying this?...So I'm a little bit confused about that verbiage. This is very confusing. (AL-005-No Experience)

[Using Design 1] And then it's grouping from 200 to 220 together and giving it a summary on line 301. It just doesn't seem like that should be grouped like that. I guess I want it to say total due from bank and then total due from borrower so then I'll know this is what the bank paid or is paying and this is what I'm due. It's clumping it all together. I can't focus on what exactly I'm supposed to pay. (AL-005-No Experience)

You have section 100, 200, 300 under each little line number as well. It almost seems more cluttered...I think you're focusing more on the numbers than the actual material. (AL-002-Experienced)

Summary of Changes

A few consumer participants asked for a summary of changes, perhaps in a chart. These participants specifically asked for a section that showed the differences between the Loan Estimate and the Settlement Disclosure. Consumer participants believed this section would more easily provide the answer to the key question of what changed between the estimate and final settlement.

“ I would want to see a column to show next to the prices where the increase was and what the differences are. (AL-005-No Experience)

[I'd like to see]...how everything changed from the estimate to the actual document. (AL-007-No Experience)

Loan Estimate & Unofficial Worksheet Testing

During Round 7, we tested four consumer participants in a 60-minute session each to look specifically at the Loan Estimate as well as two label options for an unofficial loan worksheet. This worksheet was intended to be similar to the worksheet that industry typically provides to consumers before an official Loan Estimate. In all cases, we used a 5 year interest only loan.

- In Task 1, consumer participants did a think-aloud on the unofficial worksheet estimate (either Option 1 or Option 2). They then answered a series of open- and closed-ended questions. We specifically wanted to learn if they noticed that this was an unofficial worksheet and to find out which label option they thought worked better.
- In Task 2, consumer participants did a think-aloud on the Loan Estimate and then answered a series of open- and closed-ended questions. In this task, we specifically wanted to look at changes to the Loan Estimate including: new language about increases in Loan Terms for interest only loans, new language about Escrow in Projected Payments, and new presentation of elements within the Adjustable Payment (AP) table on page 2.

Task 1. Unofficial Worksheet

In Task 1 of this testing, we wanted to see if consumer participants recognized the worksheet as different from a Loan Estimate. To this end, we tested two different labels in the upper-right corner that identified the information as an unofficial estimate. None of the consumer participants noticed the label when initially viewing either worksheet. In fact, consumer participants read right over it—going straight into the details without even looking at the label. Therefore, they had no way of comprehending from the disclaimer that the sheet was a worksheet example rather than a Loan Estimate.

Once the label was pointed out to them, all four consumer participants preferred the visual presentation of Option 1, which had a gray box and bolded text. Three consumer participants also found the wording of Option 1 clearer, noting that it was less technical and more clearly written. Since no consumer participants independently noticed the label in either option without prompting from the moderator, the label should be redesigned to be more noticeable. Consumer participants suggested a large title for the page such as “Non-Official Estimate” or a larger watermark that says “This is not an official loan sheet.”

“ I do not know why but [Option 1] just draws your eye to it. Usually when you see something in a box, that is a little bit different, you tend to go to it first...You get it all out there in a few short sentences, and this one looks like it is just repeating itself, and really it says get an official loan estimate before choosing a loan. That is what it is telling you. It is just not an official loan estimate and it is telling you to get an official loan estimate before you choose which loan is best for you. This one here [Option 2], I did not even catch that right there. It is just more out there. This is more appealing. It basically tells you what you need to know. (AL-Worksheet-04)

[Option 1] “Your actual rate payment and cost will be higher than your official loan estimate.” That’s very clear...it’s highlighted and it has the little bee [dotted line] going around the top. It just caught my attention...This is bold. This [Option 2] is a little script and just a line going around the box with some scribble, and it’s just nothing which is why I thought it was nothing. (AL-Worksheet-02)

[Option 1 with] the shadowed box with the bold is good. I mean it does make it more apparent...It’s just worded better. I mean it explains it a little bit more where it’s not so official, I guess. (AL-Worksheet-03)

Task 2. Loan Estimate

During the worksheet interviews, consumer participants also looked at a Loan Estimate. They generally understood the information in the Loan Estimate and recognized the primary elements of the loan (loan amount, interest rate, monthly payment, payment changes, and escrow). Consumer participants often commented that they liked the language and layout on this page. The information in the Loan Estimate, primarily on page 1, helped consumer participants ask good questions about their loans. They often said that they would call their loan officers to ask about items of concern and felt that the Loan Estimate would aid in this conversation.

“ Yes [it gives the right information], because I want to know what I am buying, what is my interest rate, can my account increase or not, what will my payments probably be and what will my closing costs be. Like I said, the one word that stood out to me is “estimated” because you can go to purchase a house and then later, I’ve heard war stories, I had to pay so much and it didn’t say it on the form and no one told me. But this form is saying estimated and it can increase. (AL-Worksheet-02)

It gave me so many details: the loan amount, my loan type, the rate lock, if I can lock in the rate or not. And they let me know that everything is estimated. It is not for certain. I could be looking at more or less money to pay out. (AL-Worksheet-02)

The next thing would be, I would call and ask all my questions and see if I still...why are they only doing me a loan that I’m paying only interest and no principal for the first six years? And why are they not putting my taxes and insurance in it? Because that’s something you want to handle all in one payment. (AL-Worksheet-03)

It does breakdown enough information that and it’s separated enough all the pay...I mean the questions that you were asking become very apparent by looking at the form. So you’re not struggling through it. When you do call you will have those questions right here. I mean because they do kind of fall off the page at you. (AL-Worksheet-03)

Consumer participants easily followed the *Projected Payments*.

“ When you look at it, of course, it gives you your monthly payment for Years 1 through 5, your 6 through 11, and 12 through 30...it really is easy to understand the way it’s broken down. And it gives you what you’ll be paying. (AL-Worksheet-03)

The projected payment has my focus at this point, because I am looking at how much you are paying each month. From here it looks like you are paying \$622, and it looks like a thirty-year loan term, so the price goes up over the course of the years. The first five years it is a low payment, then it goes up gradually a little bit more, and then a little bit more as well...Now I am looking at this section [Projected Payments] here to see if anything is going to change. It is already telling me here that amounts can increase after so long. (AL-Worksheet-04)

Interest Only Language

After previous testing, we changed the design of page 1 to emphasize an interest only loan and how high the payment could go. In comparison to previous testing, consumer participants more easily recognized the loan as interest only and seemed to connect the interest only language to the *Projected Payments*. This recognition was a function of the additional language in *Loan Terms*.

“ It’s a 5 year interest only. Basically what you’re doing there is just paying interest. Then you picking up...it jumps from \$540 a month to \$855...I wouldn’t do it under these circumstances. (AL-Worksheet-01)

As far as only interest and no principal for 6 years, I would want to know more. I have heard about an only interest and no principal loan, but I have never done one, so I would want a mortgage person to give me more details about it. (AL-Worksheet-02)

The 5 year interest rate or 5 year interest only; I guess you’re paying interest for the first five years. (AL-Worksheet-02)

Escrow

Another change to page 1 after previous rounds of testing was to revise the language in the *Projected Payments* section to indicate whether the loan escrowed taxes and insurance. In this round, all consumer participants easily recognized that there was no escrow and understood they would have to pay these amounts separately.

“ Actually there’s no escrow so that means that they’re not going to pay it...I’m paying myself. (AL-Worksheet-01)

It says you must pay your taxes and insurance separately. It explains what escrow and no escrow means. That is very helpful. (AL-Worksheet-03)

There is no escrow here. It shows an estimated and there is no escrow here, no escrow in estimated. There is none all the way across the board. (AL-Worksheet-04)

Adjustable Payment Table

One of the purposes of this testing was to take a closer look at the *Adjustable Payment Table* on page 2. All consumer participants seemed to understand and could articulate what the table was telling them. However, consumer participants expressed confusion about the terms “step payments” and “negative amortization.” One consumer participant suggested referring to payments using either years or months but not both because it could be confusing to consumers.

“ It’s showing me that for part of the first five years or 60 months, I’m going to be paying interest only and then it’s going to tell me starting on the 61st payment then I’m going to be...a change. There will be a change in the amount I pay. (AL-Worksheet-01)

So yes, my first payment up until my 60th payment I would just pay interest. Starting at my 61st, I would start paying my interest and my principal so that is what I'm taking from it. (AL-Worksheet-02)

Basically, what I am understanding is the monthly principal and interest, the first 60 payments are interest only, and after that, starting with my 61st payment, it goes up, and that is the first change. It goes up to \$855. It looks like here that there are no other changes after that. The maximum possible is \$855 starting with the 61st payment. I would take that as them telling me that my maximum to pay is \$855. (AL-Worksheet-04)

The only thing that is really throwing me off is "step payment" because I don't know what a step payment is so the mortgage person would have to explain to me. (AL-Worksheet-02)

It's got \$855 starting at 61st payment. But when you look over here it says Years 12 to 30. So either do payments or years...I mean you're not going to know what payment you're on. So I would do it with years because you're going to remember years better than you will what payment number you are. (AL-Worksheet-03)

Comparisons

On page 3, all but one consumer participant commented that they liked having comparisons to review different loans. However, as with prior rounds of testing, consumer participants had trouble with *Lender Cost of Funds (LCF)* and *Refinance*. Consumer participants were either confused about the meaning of LCF or did not want it on the disclosure.

“ Well I mean I'm taking [LCF] as they're paying 1.2% and I'm paying 4.5%...but I don't think you want to say that it's that much lower than what you're paying because then it feels like you're paying way more than what you should. I mean if they're only having to pay 1.4%, why am I having to pay 4.5%?...I'd leave that off. Just leave that off. Don't even put it in there. (AL-Worksheet-03)

[With LCF] I would have to pay an additional 1.2% on all the other interest I am already paying. (AL-Worksheet-02)

I do not know what these two [LCF and TIP] are anyway. "Total Interest Percentage." I have no idea what that means. I do not know what "Lender Cost of Funds" means. (AL-Worksheet-04)

Three consumer participants raised concerns about the language in *Refinance*. As with prior rounds, all read this section as meaning they would not be able to refinance in the future and wanted to know why.

“It’s not the terms of the loan that’s the reason you can’t refinance. It would be the economy or their financial status at the time. Because when you read it in here, you’re going to take it as it’s part of the term of your loan, you can’t refinance...you would take it the way it’s worded as you’re locked in with this bank to do whatever they want to with you, and you can’t do anything about it. (AL-Worksheet-003)

And the only thing that is sticking out to me is that you may not be able to refinance your loan...this is not telling me why I might not be able to refinance. I think it should be more detailed, saying you should be able to refinance depending on your credit score or on your current occupation. More detail just telling me I might not be able to refinance and not telling me why. (AL-Worksheet-02)

“You may not be able to refinance your loan to lower your interest rate and payments in the future with the support of another lender.” Why? I want to know why I can’t, I mean why I’m stuck with this interest rate? (AL-Worksheet-03)

Conclusion

Round 7 was the second round of testing for the Settlement Disclosure. In this testing, consumer participants compared a Settlement Disclosure with two different designs (Design 1 and Design 2), allowing us to assess how well they could understand the transaction and identify the differences between the Loan Estimate and Settlement Disclosure and which design worked better to answer consumer questions about the settlement process. Page 1 was consistent across both designs, and this page performed very well for consumer participants. They could verify key terms of the loan and compare the Settlement Disclosure with the Loan Estimate. All consumer participants noticed the key differences between the Loan Estimate and the Settlement Disclosure—monthly loan payment, changes to estimated taxes and insurance, and cash to close. They also easily recognized the changes in the total monthly payment and the escrow information. Industry participants commented on the “consumer friendly” nature of page 1 and believed this page gave consumers the key information they needed about loan and settlement terms.

Page 1 worked well to activate consumer participants to take an important next step: to find out what changed from Loan Estimate to final settlement, to identify the differences, and to understand those differences. At this point, consumer participants looked to pages 2 and 3 to find out what had changed.

Design 2 performed better than Design 1 in helping consumer participants find the differences between the loan estimate and final settlement costs and fees. Using the same organization and design for the *Closing Cost Details* in Design 2 as we used in the Loan Estimate simplified the task of locating fees, comparing the fees, and identifying differences. Surprisingly, consumers also

preferred the inductive organization of pages 2 and 3 in Design 1 with the details on page 1 and the summaries on page 3. Not only did consumers perform better with Design 2, the majority of them also preferred Design 2. These consumer participants liked the order of the two pages, the organization of information, the section headings, and the calculations on page 2. In short, Design 2 seemed more logically oriented for consumers.

Conversely, consumer participants, using Design 1, were less able to find and state differences. Additionally, consumer participants using Design 1 were more likely to be confused about the settlement costs and fees, and how the numbers fit together to create a holistic picture of what they owed. Two inexperienced buyers preferred the deductive organization of Design 1 with the *Summary of Transactions* coming before the *Closing Cost Details*. They noted the more prominent display of side-by-side borrower and seller transactions on page 2 and the headings and line numbers as positive elements of Design 1. Industry participants also preferred Design 1, citing the same reason of wanting the summary and then the detail.

One observation to consider was that consumer participants did not make the same kind of action statements while using pages 2 and 3 that they made at the end of page 1. Consumer participants focused on finding the details—and did so quite successfully with Design 2—rather than understanding why the change occurred. It's unclear if the consumer participants simply did not say that they would ask questions about why the change had occurred or if they would be satisfied at merely finding the difference. This result could be a function of the testing because the detailed comprehension questions focused on finding differences as opposed to focusing on what the consumer would do next.

Consumer participants easily understood pages 4 and 5. They found the *TIP* helpful. However, they were confused by the *LCF*, and some suggested deleting it. Industry participants wanted both the *TIP* and *LCF* removed. As in previous rounds, consumer participants continued to misunderstand the language in *Refinance*. Consumer participants said they would sign the disclosure with almost all understanding that it was not binding.

For the worksheets, consumer participants did not notice the label disclaimer language. Instead they focused on the loan details. The format of the label did not ensure that consumers would distinguish between a worksheet and an official Loan Estimate. After reviewing the disclaimer language, consumer participants found the language of Option 1 clearer. Also, consumer participants performed well with changes to the Loan Estimate. We carried these changes to the Loan Estimate into Round 8 of testing.

Revisions to Prototypes, Round 7

Based on the results of this round of testing, we decided to move forward with the Design 2 format and made changes to the design as documented in the table below. We also made minor changes to the Loan Estimate.

TABLE 28. Revisions to Settlement Disclosure Prototype, Round 7

Revision	Reason
Top Portion, page 1	
Added to text by title: "Compare this document to your Loan Estimate"	To underscore the connection between the Settlement Disclosure and the Loan Estimate
Increased font size of the items in the three columns of information: <i>Settlement</i> , <i>Transaction</i> , and <i>Loan</i>	To increase readability and legibility
Moved File # and Sale Price to <i>Settlement Information</i> column	To give consumers a basic number (sale price) to ensure that the basis of other numbers is correct; to move File # to a more logical grouping
Moved Lender Name to <i>Transaction</i> column	To group lender with other basic transaction information
Moved Lender Address from <i>Loan Information</i> column to page 5 <i>Contact Information</i> table	To group all contact information in one location
Loan Terms	
No change	
Projected Payments	
Changed title (Design 1) from <i>Information about Escrow for Taxes and Insurance to Estimated Taxes, Insurance & Assessments</i>	To be more accurate about the costs that can be included in escrow
Added a "Partial Escrow" category and text to Design 1; also edited <i>Escrow</i> text	To respond to industry feedback that the disclosure should have selection for partial escrow accounts To further clarify <i>Escrow</i> text
Added "& Assessments" to Design 2 title about escrow	To be more accurate about the costs that can be included in escrow
Added "You must pay other property costs separately" to Design 2 escrow text	To help consumers in Design 2 to understand the possibility of partial escrow
Closing Costs	
No change	
Ordering of pages 2 and 3	
In Design 1, placed the <i>What Changed</i> and <i>Summaries</i> sections on page 2, with the <i>Closing Costs Details</i> on page 3	To use a deductive logic for the organization of the summary with summary information first, then details
In Design 2, placed the <i>Closing Costs Details</i> on page 2, with <i>What Changed</i> and <i>Summaries</i> sections on page 3	To use an inductive logic for the organization of the summary with details first, then summary information

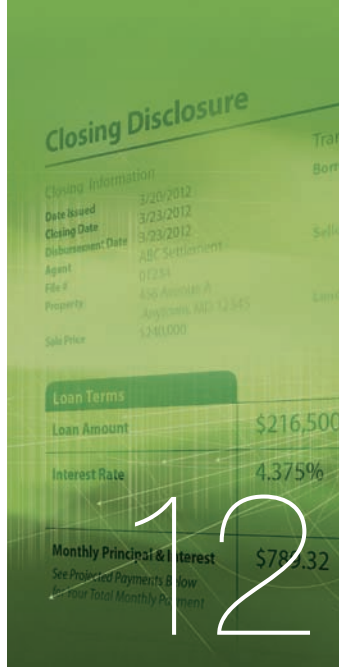
Revision	Reason
Top Portion, page 2, Design 1	
<p>Reconceptualized this section:</p> <p>Deleted summaries for <i>Closing Costs</i>, <i>Down Payment</i>, and <i>Originator Fees</i></p> <p>Renamed this section <i>What changed?</i></p> <p>Expanded the <i>Calculating Cash to Close</i> table to include estimated amounts and used bold to indicate changes</p> <p>Replaced the <i>Closing Costs</i> table with the <i>Increases Over Limits</i> table</p> <p>Added an <i>Interest Rate Changes</i> table</p> <p>Indicated that these three tables were all in a section titled: <i>What Changed?</i></p>	To respond to consumer participants' responses during testing requesting an easily visible indicator of changes, and to respond to what was often the first question after comparing Loan Estimate and page 1 of Settlement Disclosure: What changed?
In <i>Calculating Cash to Close</i> table, added rows under <i>Settlement Fees</i> and <i>Settlement Costs</i> to refer to sections A, B, C, D, E, F, and G in <i>Closing Costs Details</i> table on page 3	To help consumers locate changes in those sections between the Loan Estimate and the Settlement Disclosure
Added <i>Interest Rate Changes</i> table	To add the information that could generate many other changes in the loan terms
Ordered tables in column 2 with <i>Interest Rate</i> table first and then <i>Increases Over Limits</i> table	To experiment with the ordering to see which order works best for consumers
Top Portion, page 3, Design 2	
<p>Reconceptualized this section:</p> <p>Renamed this section <i>What changed?</i></p> <p>Expanded <i>Calculating Cash to Close</i> table to include estimated amounts and used bold to indicate changes</p> <p>Added an <i>Interest Rate Changes</i> table</p> <p>Revised formatting of <i>Limits on Increases</i> table</p> <p>Indicated that these three tables were all in a section titled: <i>What Changed?</i></p>	To respond to consumer participants' responses during testing requesting an easily visible indicator of changes, and to respond to what was often the first question after comparing Loan Estimate and page 1 of Settlement Disclosure: What changed?
Ordered tables in column 2 with <i>Increases Over Limits</i> table first and then <i>Interest Rate</i> table	To experiment with the ordering to see which order works best for consumers
Summaries of Transactions	
In Designs 1 and 2, removed the two separate tabs and created a single one titled <i>Summaries of Transactions</i>	To make this section appear separate from the <i>What Changed?</i> section
In Design 1, removed traditional numbers from section headers	To simplify numbering
In Design 1, replaced traditional numbers with shaded numbers that restart in each alphabetical section	To reduce clutter on page, but maintain the navigational ease

Revision	Reason
In Design 1, removed title in Sections 300 and 600 and moved <i>Cash Summary</i> line to top of calculation	To align this section with the design of the other sections
In both designs, added a row of <i>Other Credits & Adjustments</i> to both Borrower's sections	To match language from the Loan Estimate
In both designs, changed <i>Unpaid Items that are Due from Seller</i> to <i>Adjustments for Items Unpaid by Seller</i>	To be more accurate with cost reporting
Closing Costs Details	
In Design 1, used same structure as Design 2	To align with the Loan Estimate design
In Design 1, added a tab for <i>Closing Cost Details</i>	To provide an overall identification for the information on the page
In Design 1, replaced traditional numbering with shaded numbers that restart in each alphabetical section	To reduce clutter on page, but maintain the navigational ease
In Design 1, shaded the column headings	To draw attention to the column headings
In Design 1 and 2, regrouped the columns into three main columns, <i>Borrower-Paid</i> , <i>Seller-Paid</i> , and <i>Paid by Others</i>	To simplify the organization of the information
In Designs 1 and 2, divided the <i>Borrower-Paid</i> column into three columns: <i>Paid at Closing</i> , <i>Paid Before Closing</i> , <i>Financed in Loan Amount</i>	To group borrower-paid items together
In Designs 1 and 2, divided the <i>Seller-Paid</i> column into two columns: <i>Paid at Closing</i> , <i>Paid Before Closing</i>	To group seller-paid items together
In Designs 1 and 2, added <i>Other Costs</i> section to <i>Settlement Costs</i>	To provide flexibility and accommodate miscellaneous costs that do not fit into other sections (e.g., real estate transaction costs)
In Designs 1 and 2, redesigned <i>Calculation</i> section for <i>Settlement Fees</i> to have row for subtotal, a row for <i>Lender Credits</i> , and a row for <i>Total Borrower-Paid Settlement Fees</i>	To align total sections with the design of other total and subtotal sections
In Designs 1 and 2, redesigned <i>Calculation</i> section for <i>Settlement Costs</i> to have row for subtotal and a row for <i>Total Borrower-Paid Settlement Costs</i>	To align total sections with the design of other total and subtotal sections
In Designs 1 and 2, changed <i>Calculating Closing Costs</i> section to have row for the total and a row for the <i>Total Borrower-Paid Closing Costs</i>	To align total sections with the design of other total and subtotal sections
Loan Disclosures, page 4	
In Design 1, arranged some information in <i>Escrow Account Information</i> into a table and edited text	To take out numbers embedded in text and to increase readability

Revision	Reason
Loan Calculations, page 5	
In Design 1, replaced <i>Lender Cost of Funds</i> with <i>Average Cost of Funds</i> and new definition	To try an alternative approach to <i>LCF</i>
In Designs 1 and 2, moved <i>Originator Information</i> to a new <i>Contact Information</i> table	To consolidate all contact information into one table
In Design 2, removed <i>Originator Fees Summary</i>	To reduce redundancy with <i>Closing Costs Details</i> table
Contact Information Table, page 5	
In Designs 1 and 2, created a table for Lender, Mortgage Broker, Real Estate Brokers, and Settlement Agents	To consolidate all contact information into one table
Other Disclosures, page 5	
Rewrote <i>Refinance</i>	To make it more explicit that market and personal financial situations would be the cause of an inability to refinance
Questions and Confirm Receipt	
In Design 1, reformatted <i>Questions</i> section to be more graphic and set off from other text	To provide more emphasis to the <i>Questions</i> section
In Design 2, reformatted <i>Questions</i> section to be in a box and set off from other text	To provide more emphasis to the <i>Questions</i> section
In Designs 1 and 2, changed format of the signature lines to be two side-by-side sections instead of two stacked lines	To align design with Loan Estimate design

TABLE 29. Revisions to Loan Estimate Prototype, Round 7

Revision	Reason
Top Portion, page 1	
Moved "Rate Lock" text below the line under the "Rate Lock" check boxes	To group rate lock information together
Added sentence above the line: "Save this Loan Estimate to compare with your final Settlement Disclosure"	To instruct buyers to save the Loan Estimate for comparison at the closing
Arranged information into two columns	To simplify the appearance of the top of the Loan Estimate
Calculating Settlement Fees, page 2	
In <i>Section A. Origination Charges</i> , changed "%" to a parenthetical phrase: (% of Loan Amount)	To add a short definition of "points"
Removed the letter "D" from <i>Total Settlement Fees</i> section and letter "I" from <i>Total Settlement Costs</i>	To align lettering with the sections in the Settlement Disclosure
Comparisons, page 3	
Removed <i>Lender Cost of Funds</i>	To remove the item that consumer participants least understood and least found helpful during shopping phase
Other Considerations	
Rewrote <i>Refinance</i> text	To make it more explicit that market and personal financial situations would be the cause of an inability to refinance
Arranged items in alphabetical order	To give an obvious logic to the ordering
Changed format of the signature lines to be two side-by-side sections instead of two stacked lines	To allow for more room



Usability Testing Round 8 – Philadelphia, PA (January 2012)

Introduction

Based on the results from Round 7 in Birmingham, we moved into Round 8 with the *Closing Cost Details* structured to closely match the Loan Estimate's *Closing Cost Details* in order to simplify further the comparison task for consumers. With this major decision made, we fine-tuned a number of elements. We continued to explore what order for the *Closing Cost Details* and the *Summaries of Transactions* pages would work best for consumers. We further consolidated the columns for the fees, grouping the borrower's fees and then the seller's fees. Because consumer participants had specifically looked for what had changed between the estimate and final disclosure, we added a table titled *What Changed?* to simplify this action for consumers. We also wanted to explore if consumer participants could see what items were included and not included with a partial escrow. We again adjusted the definition for *Refinance*. We continued to adjust the definition of the *Average Cost of Funds/Lender Cost of Funds* to make it more acceptable to consumer and industry participants. We also continued to experiment with small tweaks to language, layout, and location of information to make the Settlement Disclosure more understandable and easier to use.

Research Goals

As in the previous rounds, we had two overarching goals for this testing: comprehension and comparison. The first goal was to determine whether consumer participants performed better with one of the designs in order to understand the financial details of settlement transactions, including final loan terms, individual costs and fees, and mandated information about closing. Our second goal was to determine if consumer participants (1) could use the

Settlement Disclosure with the Loan Estimate to identify key changes from the estimate to the final and account for those changes and (2) could use the Settlement Disclosure without the Loan Estimate. For this testing, we again manipulated nuances of the transaction between the estimated and final numbers to ensure that the design helped consumers notice them. We used only one loan product: a 30 year, fixed rate conventional loan with escrow that had a tolerance violation, a loan amount increase due to closing costs being financed, and a cash-to-close increase. To this end, we explored the following research questions.

Consumers

1. Can consumers understand the loan terms and the settlement fees and costs on the Settlement Disclosure—with and without the Loan Estimate?
2. Can consumers use the disclosure to understand why some fees changed?
3. Which order of *Details* and *Summaries* works better for consumers?
4. How do consumers use the *Summaries* on page 2 (Design 1) and page 3 (Design 2)?
5. What is the effect on comprehension and consumer preference for the many small changes that were made to layout, such as shading, or language, as in *Escrow*, *LCF/ACF*, *Refinance*?

Industry

1. Do lenders and settlement agents think the Loan Estimate and Settlement Disclosure will work for consumers?
2. What problems do they think that consumers might have?
3. What issues do lenders and settlement agents see with implementation?

Who We Tested

For Round 8, we conducted 14 cognitive interviews in Philadelphia, Pennsylvania (each lasting 90 minutes):

- twelve consumer participants and
- two industry participants, one lender and one settlement agent.

Once again, we over-recruited for participants with low education and with little home buying experience to ensure that the disclosure works with these consumers. Six consumer participants had no home buying experience and six had some home buying experience. Four of the twelve participants had less than a high school education, and four had less than a college education, while four had a college education or more. In this round, five of twelve participants were African-American, four were White, two were Asian, and one identified as both African American/White. In terms of age, five were between 18 and 30, four were between 46 and 60, two were between 31 and 45, and one was older than 60. Most (eight) had a household income of between \$35,000 and \$70,000. See *Appendix A. Demographic Summary*.

Interview Structure

In Round 8, consumer participants were placed in one of two conditions. In Condition 1, consumers received both a Loan Estimate and Settlement Disclosure to reflect the situation in which the consumer has both disclosures. In Condition 2, consumers initially received only a Settlement Disclosure to reflect the situation in which the consumer, for whatever reason, does not have a copy of the Loan Estimate.

In **Condition 1**, where consumer participants received both a Loan Estimate and a Settlement Disclosure, the interview began with an orientation. This brief introduction was particularly important for participants with no home buying experience. A diagram of the home buying process pointed out when they would receive a Loan Estimate. The moderator, following the approved script, reviewed an initial Loan Estimate with each of them. Consumer participants again used the diagram of the home buying process to see when they would receive the Settlement Disclosure. After this orientation, consumer participants completed three tasks:

- In Task 1, consumer participants did a think aloud on the Settlement Disclosure (either Design 1 or Design 2) and compared it to the Loan Estimate the moderator had reviewed with them. They then answered a series of open- and closed-ended questions.
- In Task 2, consumer participants did a think aloud on the alternate design and answered questions about the different designs.
- In Task 3, consumer participants focused on Part 3, the last two pages of the Settlement Disclosure, and answered questions about some of the loan disclosure calculations, wording, and the signature section.

In **Condition 2**, consumer participants received only a Settlement Disclosure initially and then later received the Loan Estimate. The moderator showed them the diagram of the home-buying process to point out when they would receive a Settlement Disclosure. The moderator also told them basic information on the loan type they had applied for and additional details about their initial Loan Estimate and gave them a sheet with key information on it— purchase price, down payment, deposit amount, amount borrowed, and estimated cash to close. The goal was to not have them rely on their memories for the scenario information. They did not receive a hard copy of the Loan Estimate. After this orientation, consumer participants completed three tasks:

- In Task 1, consumer participants did a think aloud on the Settlement Disclosure (either Design 1 or Design 2). They then answered a series of open- and closed-ended questions. After answering questions, participants received the Loan Estimate to see how easy or difficult it would be to compare.
- In Task 2, consumer participants did a think aloud of the alternate design and answered questions about the different designs.
- In Task 3, consumer participants focused on Part 3, the last two pages of the Settlement Disclosure, and answered questions about the loan disclosure calculations, wording, and the signature page.

Rotations

Participants were placed in one of two conditions. In Condition 1, they saw the Loan Estimate and Settlement Disclosure. In Condition 2, they received the Settlement Disclosure. Designs 1 and 2 were alternated within the conditions and the rotation was divided evenly between experienced and inexperienced consumers.

TABLE 30. Disclosure Rotations, Round 8

Participant	Home Buying Process	Condition	Design
PA-001-Experienced	Same	1 (LE + SD)	1
PA-002-Experienced	Same	2 (SD only)	1
PA-003-No Experience	Same	1 (LE + SD)	2
PA-004-No Experience	Same	2 (SD only)	2
PA-005-No Experience	Same	1 (LE + SD)	1
PA-006-No Experience	Same	2 (SD only)	1
PA-007-Experienced	Same	1 (LE + SD)	1
PA-008-Experienced	Same	2 (SD only)	2
PA-009-Experienced	Same	1 (LE + SD)	2
PA-010-No Experience	Same	1 (LE + SD)	2
PA-011-No Experience	Same	2 (SD only)	1
PA-012-Experienced	Same	2 (SD only)	2

What We Tested—Design

For this round, many aspects of the disclosure remained nearly identical, but there were also significant differences.

Design 1

- Included a partial checkbox for escrow on page 1
- Had *Summaries of Transactions* on page 2 and *Closing Cost Details* on page 3
- Had numbered line items on page 3
- Included a table in the *Escrow Account Information* on page 4
- Included *Average Cost of Funds*

Design 1 placed the *Summary of Transactions* on page 2. To the top of that page, we added three tables: *What Changed?*, *Interest Rate Changes*, and *Increases Over Limits*. Each table addressed an issue that had emerged from the previous round. The *What Changed?* table included a row for each major section of the *Closing Cost Details*. On page 3, *Closing Cost Details* now matched the labeling and organization of the Loan Estimate. We added numbering within each section. We placed fees into one of three columns. One column, *Borrower Paid*, was subdivided into *Paid at Closing*, *Paid Before Closing*, *Financed in Loan Amount*, *From Borrower's Funds* and *From*

Seller's Funds. The second column, *Seller-Paid*, had two sub-columns, *Paid at Closing* and *Paid Before Closing*. A third column was for fees *Paid by Others*. Pages 4 and 5 continued with the two-column format. Page 4 included the *Loan Disclosures*. We placed the variable *Escrow Account Information* into a table format. To page 5, we added a *Contact Information* table and a graphic presentation of *Questions*.

Design 2

- Had *Closing Cost Details* on page 2 and *Summaries of Transaction* on page 3
- Included only text in *Escrow Account Information* on page 4
- Included the *Lender Cost of Funds*

Design 2 continued to have the *Closing Cost Details* on page 2. This page was identical to Design 1 except the fees did not have line numbers. Page 3 provided the *Summary of Transactions* and included three tables: *What Changed?*, *Interest Rate Changes*, and *Increases Over Limits*. The *What Changed?* table was less detailed than the same table in Design 2 with only one row for *Settlement Fees* and one row for *Settlement Costs*. Pages 4 and 5 continued with the two-column format. Page 4 included the *Loan Disclosures* with the *Escrow Account Information* remaining in text. To page 5, we added a *Contact Information* table and a boxed *Questions* section.

What We Tested—Loan Type

For the Loan Estimate, we had one design and the same loan type as the Settlement Disclosure. For the Settlement Disclosure, we tested two designs and one loan type:

- 30 year, fixed rate.

The total was two Settlement Disclosures. The Loan Estimate and Settlement Disclosure differed in the *Loan Amount*, *Closing Costs*, the *Closing Costs Financed*, and the *Escrow*. See Table 31. Loan Type, Round 8 for detailed differences between the loans.

TABLE 31. Loan Type, Round 8

Loan Estimate (one design)			
Name of Loan Originator		Loan Features	
Ficus Bank		30 year Fixed rate @ 4.375% Closing costs of \$5,170 Escrow Loan Amount of \$104,975	
Settlement Disclosure			
Design 1 (Summaries page 2 and Details page 3)		Design 2 (Details page 2 and Summaries page 3)	
Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Ficus Bank	30 year Fixed Rate @ 4.375% Closing costs of \$5,519.53 Partial Escrow box Loan amount of \$109,805.63	Ficus Bank	30 year Fixed Rate @ 4.375% Closing costs of \$5,519.53 Escrow Loan amount of \$109,805.63

See Appendix K. *Loan Estimate and Closing Disclosures for Round 8 – Philadelphia, PA* for the disclosures that were tested in Round 8.

Overall Findings

Summary Information, page 1

The summary information on page 1 worked very well to ensure that consumer participants could understand the basic terms of the loans as well as fees. Consumer participants in Condition 1 easily noticed differences between the Loan Estimate and Settlement Disclosure due to the identical layout of page 1. Consumer participants in Condition 2 (who did not receive the Loan Estimate initially but were verbally told the basic loan terms offered in the scenario) also noted differences between what they were told and key terms on page 1.

Verifying Information Intent

After being introduced to the scenario, but before they did anything with the Settlement Disclosure, consumer participants were asked what key information they would like to verify. Most participants mentioned loan terms, such as the loan amount, interest rate, monthly payment, and fees. Experienced participants were more likely to also mention costs and fees and make sure that no “hidden fees” were introduced at settlement. Consumer participants could find what they wanted to verify, identify differences, and were activated to ask questions. In general, both experienced and inexperienced participants expected the settlement costs and fees to remain the same without much variation from estimate to final. Whether they had seen the Loan Estimate (Condition 1) or received the information orally (Condition 2), their responses were remarkably similar.

“ I would like to know how much exactly we would need to pay each month, if it’s ever going to go up. That’s a big concern. I want to know that it’s going to stay that same way. That there’s no little hidden fees, no little hidden prices that are going to be added on, that what they say at closing is what it’s going to be. (PA-012-Experienced-Condition 2)

I’d like to see the numbers match and that there’s no new, additional fees of any kind. (PA-009-Experienced-Condition 1)

So I will just verify loan terms and objective payment, and like this thing is with the loan and I will try to verify. Here I would just make sure that it is not too far off of what we had originally discussed that primarily I would just verify what actual loan terms are. (PA-005-No Experience-Condition 1)

Yeah, all of the costs on page 2, just to make sure that everything is the same, basically the same thing...The services that I can shop for, cannot shop for, just to see if they offer me the same services. Or services that I couldn’t shop for, if that was the same. Just make sure everything was basically the same as how I saw it the first time, basically. (PA-003-No Experience-Condition 2)

Finding Differences

Consumer participants easily compared the first page of the Loan Estimate and Settlement Disclosure in part because they looked the same, and the identical layout made even subtle differences stand out to them. Even when looking at the Settlement Disclosure only, all consumer participants noted key differences on page 1 by comparing it to the scenario sheet (which provided basic information about the transaction—sales price, deposit, interest rate, and closing costs).

“ The loan amount’s different...One thing I noticed was my Years 1 through 7 and Years 8 through 30 principal and interest are different. And my estimated escrow is different. So it’s saying partial escrow, which I don’t believe the other one was partial. And also the total’s different at the end, the estimated cash to close. And the closing costs are different. (PA-007-Experienced-Condition 1)

The very first thing I see is the \$5,000 difference right here [in loan amount]. And then the principal interest rate is \$24 more. And the principal interest of course, that’s the same amount, like \$548, and that is \$24, which is more. The mortgage insurance has gone up and the escrow amount is also higher. So instead of paying \$857, I’m already paying \$150 more. So the amounts are really not matching. That’s the first thing I would see. And here I was asked to get \$25,000 and here it’s showing up as \$27,000. (PA-009-Experienced-Condition 2)

Asking Questions

After reviewing page 1, both experienced and inexperienced consumer participants were highly activated to ask questions, particularly about the differences they noticed (loan amount, estimated monthly payment, escrow amount, and closing costs). Participants recognized these differences as potential problems and wanted to know what accounted for these changes from loan estimate to settlement. Some implied that they would not proceed with closing until they understood why the differences had occurred.

“ Now I feel like all these extra fees and payments are being added at the last minute. I have a lot of questions about that. Before I put my signature on it, I need to know. This is not what we agreed to, and I am having a little bit of a second thought here, because this is not what we agreed to. The closing costs are \$27,625.00 and it initially was supposed to be \$25,101.00. There is a substantial difference. That could be a major problem...all of the numbers have to match, because if they do not, I feel like I am being misled, and I feel like I am being overcharged. (PA-004-No Experience-Condition 2)

Going by this [Settlement Disclosure] and this here [scenario sheet], I would look back like whoever I got the papers from and see if they can make some kind of corrections because this is two different numbers here. We have to get on the same page before we get on another page. You understand? So, number one, before you really go any further, we have to discuss how they're going to straighten this out first. (PA-006-No Experience-Condition 1)

I would want to talk to the loan officer and see why my costs are so much more than they were originally supposed to be. Why are my closing costs thousands of dollars more than I was originally told? (PA-007-Experienced-Condition 1)

Comparing Behavior

Throughout Round 8, it became clear that the key action consumer participants wanted to take was to compare information (e.g., loan terms, costs and fees, etc.). In Condition 2, in which they did not have a Loan Estimate, they compared the numbers on the scenario sheet. Once they received the Loan Estimate, they also compared with it. Although participants could use the Settlement Disclosure alone, they performed more effectively when they had a Loan Estimate to compare with the Settlement Disclosure.

“ Well right off the bat I'm seeing that the underwriting fee is different, so for some reason it's more than double over here. There's a lot of different things. The processing fee is different. The verification fee is different so it seems like maybe...well that's a rate lock fee, and the verification fee is a lot less. (PA-007-Experienced-Condition 1)

On the original charges in the estimated column here, I see some prices are similar and other prices are substantially higher, actually from \$675.00 to \$800.00. The processing fee is \$300.00. The verification fee went down from \$200.00 to \$75.00 and then the rate lock-in fee is the same and the review fee is the same. There is an increase and decreases. I would want to know why. (PA-004-No Experience-Condition 2)

The underwriting fee has gone up. Processing fee is the same. That's fine. Verification fee has gone down. Anything going down is always good. The rate lock fee is the same and the desk review fee is the same, so that's good...I'm just comparing those two [Loan Estimate to Settlement Disclosure]. That's the way I work. (PA-009-Experienced-Condition 2)

Closing Cost Details, pages 2 and 3

Unlike in the previous round, consumer participants were highly activated to ask questions and demand explanations. They used *Closing Cost Details* to learn more about their settlement fees and costs. When using these details, consumer participants often raised questions about or commented on the changes they noticed. They recognized the differences and wanted to know more about why these changes had occurred. They often wondered if certain costs and fees could be negotiated or removed. In several instances, consumer participants seemed angered and put off by the changes, sometimes implying that they would not complete the closing.

“ I got an estimate of \$2,769. Why are you upping it? You should have given me a good amount. I know it is one day before closing but I was expecting \$40 less. You should have given me a closer estimate. I know it is only \$80. It wouldn't make much of a difference but I would still like to know why I wasn't given an accurate number three days before closing. Why only a day? (PA-001-Experienced-Condition 1)

The first question I would have is why did the loan amount jump approximately \$5,000? I'm rounding that off. I would need that answered first before I could go on to anything else. That would be a big one. (PA-002-Experienced-Condition 1)

I would like to know why was there such an increase in the price across the board, and why wasn't this brought to my attention, initially. I feel as though when you are doing business with people, that everything has to be done upfront, honest, and if you want to gain somebody's business, you have to be straight to the point, direct, leave nothing out, leave nothing unsaid or undone, because you can potentially lose a customer. (PA-004-No Experience-Condition 2)

I would say "Is there any way we can get rid of any of the fees? And are they all necessary? Like, is this something we actually really need to pay? Is it really necessary to pay this fee? And why do I have to pay this fee, what is the reason behind it?" (PA-012-Experienced-Condition 2)

Confusion over differences in fee names and amounts and their locations on the disclosures

Because consumer participants wanted to compare the Settlement Disclosure to the Loan Estimate, they expected the terms and fees to match exactly across the two documents. Participants wanted the same fees to be listed on both, using the same language. They easily noticed (and were concerned by) differences in how terms and fees were listed or named. Additionally, participants wanted fees to be in the same location on the disclosures. When terms and fees did not match or when they were not in the same place in the disclosures (e.g., Line H—which is in the Settlement Disclosure but not the Loan Estimate), participants were confused. The

addition of Line H to the Settlement Disclosure concerned participants because Line H did not exist on the Loan Estimate.

“ I think it would be nice to include some of the settlement disclosure fees and costs actually in the estimates so that we know what we’re paying for. Here it broke it down in page 3 all the services that we did not shop for [and] that we can actually shop for if we want to. The one service that I did shop for is the pest inspection. All these services should actually be listed on here [Loan Estimate] as well. Not everything was on here [the Loan Estimate]. (PA-001-Experienced-Condition 1)

All these [fees] should be present in both of them. If I’m going to be buying a house, I want to see both this numbers in both the places. That way I would know what I’m looking into or what I’m trapping myself into, or getting myself into. (PA-009-Experienced-Condition 2)

So moving on to section H. There’s no section H, which is something new that wasn’t on the estimate. It’s the total cost...settlement fees plus settlement costs, which is \$13,613.04. (PA-010-No Experience-Condition 2)

Where they have closing costs financial and loan amount, I wouldn’t understand what that H is, why they have that H...because that could be kind of trickery right there. They have that in the paid at closing by borrower, and they got the H there too. So they got a price on both of them, but I’d like to understand what does the H mean? (PA-006-No Experience-Condition 2)

Language Differences

As the Loan Estimate and the Settlement Disclosure became more similar, participants were able to more easily identify the remaining differences. The similarity of the language and layout seemed to encourage consumers to look for and comment on differences. Both experienced and inexperienced consumer participants were sensitive to language differences between the Loan Estimate and Settlement Disclosure (*Cannot/Did Not Shop For*, *Total Borrower-Paid Closing Costs*, *Section H. Settlement Fees/Total Settlement Fees*). They saw *Summaries of Transactions*, *Increases Over Limits*, and *Interest Rate Changes* as new terms and not matched to anything else. Also, the way that terms differed between the Loan Estimate and Settlement Disclosure made comparison difficult for some participants, such as “settlement costs,” “settlement fees,” “closing costs,” and “cash to close.”

“ Total borrower paid settlement cost...I don’t see that on here [Loan Estimate]. It’s listed differently. Maybe I’m reading it wrong. Because this amount here is the total settlement fees and that’s \$5,170 and it’s listed here as calculating cash to close, but then the total borrower paid settlement fees is definitely different and it has a different title. (PA-010-No Experience-Condition 2)

Well, number one is they don’t have a settlement fee over here, right? These pages are totally different. It’s different than this page over here. So, it’s not going to be the same because it’s written down differently. It would be very helpful for me if they were same,

because for a person just looking at this right at the top [page 2 is different], it would be confusing. (PA-006-No Experience-Condition 1)

Is "did not shop for" the same as "cannot shop for"? Yes, it's different. Yes, because the words change. "Cannot shop for" is something like that's, you know, like I don't have a choice, like that's what it is. But then did not shop for meaning like I didn't want to or something but then if I'm not shown this here, how would I know that I could have shopped for it? (PA-009-Experienced-Condition 2)

Differences in Layout between the Loan Estimate and the Settlement Disclosure

In the same way that consumer participants wanted the language to match and noted language differences, so they had heightened awareness and sensitivity to the differences in layout between the Loan Estimate and Settlement Disclosure. Both experienced and inexperienced participants wanted the layout to match and questioned when it didn't. A few participants suggested making the layout more consistent to help readers.

“ This page looks totally different. My guess is it's just put together differently. The original charges...okay. All right, so the page looks like it's a different kind of type. (PA-003-No Experience-Condition 2)

This is more of a spreadsheet format [on the Settlement Disclosure]. It's not as easy to read as this format [Loan Estimate]. You can follow it, it's just more of a spreadsheet accounting type format. But I guess it does have more information. (PA-010-No Experience-Condition 2)

Sometimes you need to kind of cut things out that would be so much time-consuming ...sometimes people can look at stuff and they can get stressed out just by looking at it, and then they just give up. So you got to take the stress out of a person by making it more convenient for a person when they're looking at a document. [So that they can find information and say...] "Oh, here it is, oh, here it is..." (PA-006-No Experience-Condition 1)

What Changed? Table

Consumer participants effectively used the *What Changed?* table to get a summary of the differences between the Loan Estimate and the Settlement Disclosure. Similar to Round 7 (Alabama), participants clearly preferred an inductive logic to the organization, going through the details of the closing costs first. With those details in place, participants then could more easily and successfully use the summary to identify the differences. We had thought that consumers might prefer a deductive logic to the organization (summary first and then detail), but consumer participants seemed to have too little context without the details to understand and use the summaries.

“ [Looking at What Changed...] So it looks like it's telling me what changes were made to get to the exact closing cost from the estimate. I guess the settlement cost, overall, changed the most. Settlement fees changed a little bit. And then it says the other credits and adjustments, that wasn't on the estimate, it's \$3,317.59. And then closing cost to be financed is minus \$4,830.63, and that wasn't on the estimate. (PA-003-No Experience-Condition 2)

What's Changed...I like that. I like things that are categorized, and then estimate final. Yeah, I do remember when we had our closing, how there was the estimate initially, and then some things went up, and some things went down. And I was annoyed with the things that were estimated, and they ended up going up. So, that kind of got me annoyed, and I was like "I thought it was going to be this. Now, why is it more?" The person that was with us, the loan officer, would explain it, and I guess I had to be okay with it. But, I see now [with this Settlement Disclosure]: there's the estimate, and there's the final. (PA-012-Experienced-Condition 2)

Most consumer participants preferred to use the more detailed *What Changed?* table because it helped them match changes to the *Closing Cost Details* section. One participant requested an explanation of the changes be added to the *What Changed?* table.

“ It has the lettering as it does in the estimate. I think that's definitely a plus. Just because I can go back to that, I can verify whatever I need to look over compared to kind of guessing. (PA-003-No Experience-Condition 1)

I would believe the more detailed would be better. I mean, if you wanted to buy a home, you want to know as many details as possible. (PA-008-Experienced-Condition 2)

I do prefer for it to be more broken down. Because I want to know, why is this estimate first like this, and now why is the final like this? Why did it change, what is the difference? And this is the reasoning, because you had to do this, you had this to pay, you had that to pay, so I like this part broken down...That's important to have a lot to look at. (PA-012-Experienced-Condition 2)

I know it was different, I don't necessarily know why it is different. I mean I verify it, I don't necessarily know why it is different. Maybe if you have a loan estimate, then hit the time of the disclosure and it ended up being different then they could just put the reason why... Somewhere, I am not sure necessarily where to put it, but somewhere just let me know why. (PA-005-No Experience-Condition 1)

Summaries of Transactions

All consumer participants skipped the *Interest Rate Changes* table and the *Increases Over Limits* table unless prompted. Once prompted, they could use the *Increases Over Limits* table to identify the amount of the overage, but few participants knew where the limits came from. Some consumer participants would question the overage, but more often they would simply pay it, especially if it meant that they would not close: "It's only \$83."

Few consumer participants, whether experienced or inexperienced, used the *Summaries of Transactions* tables for borrower and seller. Consumer participants expected this information to be related to the information on the top of the page, and so were confused by how this new information fit into the context of the page and—especially on Design 1—in the order of the pages. Consumer participants saw this as new information and had some trouble with the language.

“ So just “Due from Borrower at Closing” and then the sale price being \$123,000, just the sale price and what’s due at closing is a little confusing. I guess just the way the numbers and all the stuff look on this page is just confusing, just reading it myself without being explained through all of it. (PA-003-No Experience-Condition 2)

I would have a question on [Summary of Transaction area], because the way that they wrote it here, “Sales Price of Personal Property,” first thing somebody says, “What do they mean sales price for property?”...I don’t quite understand what they mean even they say “included in sale”. I don’t quite get that. (PA-006-No Experience-Condition 1)

“Due from Borrower at Closing.” What’s this number? There’s new numbers, and too many numbers. It gets very confusing. (PA-009-Experienced-Condition 2)

“Due to Seller at Closing,” I see that. Sometimes, the way things are worded are a little misleading or a little confusing. I think to have things spelled out, so it’s a little bit confusing with that. Like “Due to Seller at Closing”...This is what the seller is getting from the buyer? It’s kind of confusing. Is that what I have to bring? Why are they giving me this? Is this the breakdown of what that is? (PA-012-Experienced-Condition 2)

Financed Charges

Nearly all consumer participants knew that the loan amount had increased, but they *did not* know that the cause was some closing costs being financed. Few consumer participants noticed the column for *Financed in Loan Amount* on the *Closing Cost Details* page, and most consumer participants did not read down to the end of the *What Changed?* table to see the financed loan fees there as well.

“ I think that [why the loan amount increased due to financed closing costs] should be apparent before anything else is disclosed, before anything else. Again, now like I told you, maybe my blood pressure wouldn’t be all that high if I knew beforehand and I don’t want to be scrambling through and wondering why. (PA-002-Experienced-Condition 1)

It says “closing cost to be financed,” \$4,830.63 changed at the final closing cost. I don’t know why...Yeah, I don’t know why it’s saying that it changed, but it changed. (PA-003-No Experience-Condition 2)

Yes, that’s going to be a big question [why the loan amount changed]. That’s the first thing you want to look for. When you see this you definitely want to see the total loan amount. And if that changed drastically from the estimate, you know you’ll want to know why. (PA-010-No Experience-Condition 2)

Additional Disclosures, pages 4 and 5

We asked consumer participants to take a specific look at information on page 5—particularly areas that had not tested well in prior rounds. These included: *Refinance*, *Total Interest Percentage*, and *Lender Cost of Funds/Average Cost of Funds*.

Refinance

Unlike in the previous rounds, eleven consumer participants accurately understood the *Refinance* language. They understood that they can try to refinance, but many different factors will influence whether they can refinance in the future.

“ It basically says I may or may not. They can’t guarantee it. (PA-001-Experienced-Condition 1)

Basically, it depends on future financial situation and market conditions, but it’s also not guaranteed. So I would think that, depending on the situation, maybe I could. (PA-003-No Experience-Condition 2)

Yeah, you can try to refinance the loan. That doesn’t mean you’re going to get it, but you can try. (PA-006-No Experience-Condition 1)

It says I can try but I might not necessarily be qualified to refinance it. (PA-007-Experienced-Condition 1)

Total Interest Percentage (TIP)

As in previous rounds, most consumer participants found the *TIP* to be informative and helpful although inexperienced participants were confused about what the information meant. The industry participants felt consumers would not understand *TIP*, would not know what to do with it, or would have a negative reaction to it.

“ I think that over 30 years all the amount of interest I have paid so far; that is how I understand it...It is a huge percentage. I am paying way more for my house than I ever thought I would. Very good to know. (PA-001-Experienced-Condition 1)

It’s saying how much of what I borrowed is the interest—the percentage of what I borrowed. But to me that seems really high because then it’s saying that almost two-thirds, well actually more than two-thirds of what I borrowed is interest, and only one-third is the principal. (PA-007-Experienced-Condition 1)

Over time, you’re paying a lot of interest, so there’s really no way of not paying that. That’s what it’s going to come out to be: 79.75%...I feel it’s good to have an idea of what you’ll have to shell out in the future, and how you can use that money and that information to make other decisions, whether to buy a car...I think it is helpful. I’d rather have more information than not. (PA-012-Experienced-Condition 2)

I have no idea [what *TIP* means]. This says that this rate and the total amount that you will pay over the long term as a percentage of your loan amount. I don’t know what that is. (PA-005-No Experienced-Condition 1)

I was actually going to ask you about that [*TIP*] earlier. I am not really sure what that means. I mean it says it is the rate total amount of interest that will pay over long term. I don’t really know what that means. (PA-011-No Experience-Condition 1)

I don't think [TIP is] useful at all. I mean it's the way the loan amortizes...I mean that's going to change obviously with rate. So the higher this, the higher the rate. I just don't understand what as a consumer I'm supposed to do with this information. (PA-Lender-001)

They are going to have a negative reaction to it [TIP]...thinking of it from my standpoint. From a borrower standpoint, again, if I walked in with my husband and I thought I was paying 79%, I would be like...I would say to him, are we crazy? I would reconsider. I would reconsider whether or not I want to borrow all that money. (PA-Settlement Agent-002)

Lender Cost of Funds (LCF) and Average Cost of Funds (ACF)

Consistent with previous rounds, both experienced and inexperienced consumer participants could not state how the information about cost of funds helped them. Whether they initially saw *Lender Cost of Funds (LCF)* or *Average Cost of Funds (ACF)*, almost all consumer participants clearly stated that since it is not a direct cost to them, the cost is not important to them. They also said that if the cost had to be included, they preferred the wording and presentation of the *LCF* version. Industry participants also said the *LCF/ACF* was confusing and suggested removing it.

“ This represents the average cost...of borrowing funds to make mortgage loans for financial institutions. I don't know that I necessarily need to know that. (PA-002-Experienced-Condition 1)

They are saying the cost of funds used to make this loan is not a direct cost to you. If it is not a direct cost to me, why are they showing it? (PA-004-No Experienced-Condition 2)

What it's telling me is what the bank pays in fees to give me a mortgage...if they're only paying 2.0% and they're charging me 79.75% interest, I would see a great difference in this and I guess I would want to know. Because it's not costing them that much to give me a loan but they're charging me really a lot so I would want to know that, yeah. (PA-007-Experienced-Condition 1)

I really don't think that's as important. The cost of the funds used to make this loan. Why do I need to know about the lender? I want to know what I'm paying; I'm the one that's putting out a lot of money. To me, it's doesn't make a difference. You can tell me that, or not, but I don't really think it's necessary...That's fine, they can tell me, but I think sometimes it gets more confusing. More numbers, more percentages. Sometimes less is more. Just tell me what I need to know, and certain things can be broken down. (PA-012-Experienced-Condition 2)

I don't really know what it is. I don't know what the calculation is. It just says it is the percentage of the cost of funds. Where are they getting it from? What is the calculation for it? (PA-Settlement Agent-002)

You're telling me the cost of funds—what does that mean?...I think the whole thing is just, I don't know what it's trying to say as a consumer. Nor do I know what it's trying to say as—I can assume I think I know what it's trying to say. Cost of the Loan—what does that mean? Or the Cost of Borrowing—what does that mean? In my eyes as a consumer, all of this stuff is a cost of borrowing. (PA-Lender-001)

Contact Information

Some consumer participants and industry participants mentioned that they liked the stand-alone contact information section on page 5 in the Settlement Disclosure. Previously, contact information was scattered in different places throughout the disclosure.

“ I would like the contact information actually in the front, too, probably on page 2. (PA-001-Experienced-Condition 1)

I like it. It gives everybody's information which is a good thing because you have borrowers calling; "I don't know who I am supposed to contact. I don't have this or I don't have that." You can go through the file and look for it and give it to them or you can just refer them back to this. (PA-Settlement Agent-002)

Confirm Receipt

The signature line in *Confirm Receipt* continued to cause no problems for consumer participants. They understood that there would be no repercussions if they signed the disclosure but did not go forward with the settlements.

“ It's saying that by signing you are only confirming that you received this form. You do not have to complete this transaction even if you have signed or received this form. It's telling me that I don't need to—this is not an agreement. This is not set in stone. (PA-002-Experienced-Condition 1)

It's basically saying that I just received it, looked at it, it's just stating that I received it. It's not like I have to commit to complete this transaction. (PA-003-No Experience-Condition 2)

Based off of this, I would just say you don't have to complete the transaction, I would just say I have changed my mind. (PA-005-No Experience-Condition 1)

Design Findings

Near the end of the interviews, consumer participants answered questions about layout differences between Design 1 and Design 2. These layout differences ranged from how headings were presented to whether numbering should be used for line items. In general, consumer participants chose a layout on the basis of its ability to draw their attention to the information or because it fit their expectations of how a type of information should be presented. Industry participants agreed with consumer participants.

Preference of Order

In this round, half of the consumer participants received *Closing Cost Details* on page 2 and the other half received these details on page 3. We thought that consumers might prefer a deductive logic to the organization (summary, then details) as opposed to an inductive logic to the organization (details, then summary). However, because the key action that consumer participants wanted to take was to compare the Settlement Disclosure to the Loan Estimate, they expected the design of the Settlement Disclosure to look like the Loan Estimate as closely as possible. Consumer participants saw that page 1 of the Loan Estimate and Settlement Disclosure looked alike and expected page 2, not page 3, of the Settlement Disclosure to look like page 2 of the Loan Estimate as well.

Lower-literacy participants seemed to need the design to match because they had to assess detail or build a context before going to a higher analytical stage of synthesizing and summarizing that detail. Higher-literacy participants were more able to look at the summary first and then “switch gears” and go back to the detail. Both high- and low-literacy participants preferred having the detail before the summary information as presented in Design 2. While all participants looked for matching, lower-literacy participants looked for matching on three levels: the overall layout, the language, and the location of information. If even one of these elements was different, it was difficult for lower-literacy participants to compare and use the information effectively.

“ I like how [in Design 2] the settlement fees and costs are on page 2 versus page 3. Then it shows what changed after that. Here [in Design 1] we’re talking about what changed first and then all the fees and costs are on page 3. I don’t like how that was set up; it is very confusing. I like the layout here [Design 2]. It is very orderly. (PA-001-Experienced-Condition 1)

I like Design 2 better than Design 1...let me see my fees and all first and then tell me what changed. When you tell me what changed first now I’m going to scramble as to see what, where, why, when. (PA-002-Experienced-Condition 1)

It should be lined up the same way on the final [Settlement Disclosure], and laid out the same way on the Loan Estimate. This way, everything can match...in each column, the way everything is laid out here [on Loan Estimate], it should be laid out here [on the Settlement Disclosure] the same way because this way, everything will match up. (PA-004-No Experience-Condition 2)

Because they did it on the [Loan Estimate], keep the order the same here [Settlement Disclosure], it makes it a lot easier, just the comparison to try to match up, so just keep the order same. But I actually kind of like the fact that even though it has like the comparison and gives you exactly what it costs and what it costs here, so this information and this information is the same [comparing page 2 of each next to one another]. (PA-005-No Experience-Condition 1)

Industry preference

Industry participants were split in their preferences for Design 1 over Design 2. The lender participant preferred Design 1, while the settlement agent participant preferred Design 2 for purchases and had no preference for Design 1 over Design 2 for refinances.

“ I prefer this [Design 1] because it has got less. I guess if someone is going to explain something to me I want to know what changed and then go over to the itemized...I would prefer the change up front. (PA-Lender-001)

On purchases I would say the second (Design 2) is better. Again, first thing people look for...my deposit here, my credits here, seller credits, and lender credits, whatever...On a refinance I don't think it much matters. (PA-Settlement Agent-002)

Shading in Closing Cost Details

Eight consumer participants preferred the shading at the top of the columns in *Closing Cost Details* in Design 1.

“ It's nice because when it is shaded I can actually see it more clearly. (PA-009-Experienced-Condition 2)

I think that [the shading] did make a difference because I noticed at the top where it said paid at closing, where before I don't think I noticed it as much. So I think that did make a difference. (PA-010-No Experience-Condition 2)

I do prefer the shading. I think it kind of makes it stand out, like "This is important, pay attention to this," and it tells you kind of what it's representing. Like, this is representing this page of closing, this is for this column. I think it just makes it easier on the eyes. (PA-012-Experienced-Condition 2)

Numbering to Denote Line Items

Seven consumer participants wanted the line numbers on the *Closing Cost Details* page for reference. Only four participants did not prefer them, thinking that the line numbers made the page "busy."

“ [I prefer numbering] because you can identify easier. When you say, Section A, Number 02. It is easy to identify. (PA-004-No Experience-Condition 2)

I mean the numbers are easier when I want to say, "hey look at B7," so I mean it doesn't really matter as far as understanding the information, but maybe communicating the information like if I was trying to talk to you or someone else about it, it would be easier with the numbers, so I could say, just look at B7 real quick. (PA-011-No Experience-Condition 1)

I think it does help, because if you want to say “Look at 3B, or 1C”, then I think it really helps to just pinpoint where you’re looking at. Rather than saying “Try to find the document preparation fee,” Where is that? Where do I have to look? How do I get that? It’s more confusing. (PA-012-Experienced-Condition 2)

Calculations

Ten consumer participants preferred the calculation style of Design 2 for the *Summaries* tables, usually citing because “it’s how you do math.” Despite this preference, consumer participants didn’t seem to encounter any trouble using subtotals in the headings of the *Closing Cost Details* page.

““ Design 2 is showing me the calculation steps of it. It is just easier to understand the wording. (PA-004-No Experience-Condition 2)

[I prefer...] Design 2 because like I said this is how you do math, this [Design 1] is not how you do math. You don’t go up, you just go straight down the column, so this is how you do math. So when you look at it, you see it is right how they are right now, you see the numbers are accurate. So it is like “2, carry one, 16,” you know. I just want to look at it and to make sure it is the right way to calculate it. It just looks more natural to how we usually handle, how we usually do math. (PA-005-No Experience-Condition 1)

[I prefer Design 2 because...] you want to see the higher number and then minus and what is the cost, that’s just the way the brain works. (PA-011-No Experienced-Condition 1)

Escrow Account Information on page 4

Ten consumer participants found it easier to find information in the table presentation of the *Escrow Account Information* in Design 1 on page 4.

““ I prefer Design 1, because everything is more organized, laid out better, and you can understand it better, and this one with all the words combined is more complicated. (PA-004-No Experience-Condition 1)

I guess this would be more simple because it’s more basically broken down...You don’t have to figure it out. (PA-008-Experienced-Condition 1)

Table is nice...Because it’s tough to read that [Design 2]. I’m a science person so I like things in tabular form. It’s more easy to read. (PA-009-Experienced-Condition 1)

I like this one [Design 1]. It’s just easier to read...You notice line by line, you can focus on what you’re reading. (PA-010-No Experience-Condition 1)

I prefer when it is broken down [as on Design 1], it is a lot easier when there are more details because this is just a paragraph to me. I am not actually reading every single word before this. But if there is a chart, I can use this. (PA-011-No Experience-Condition 1)

Questions Box

Seven consumer participants found the use of the question mark icon in the *Questions* box more noticeable than the *Questions* box which used only prose.

“ [Design 1] stands out, and lets you know it is a question, and the icon sends a strong message regarding the question. (PA-004-No Experience-Condition 2)

I like the question one [Design 1] because it kind of are draws my attention to it, so I like that. (PA-009-Experienced-Condition 2)

The icon [on Design 1] is visually pleasing. (PA-011-No Experience-Condition 2)

I like this one [Design 1]. I do think pictures make it more interesting, even if they're tiny pictures, small icons, clip art, whatever. (PA-012-Experienced-Condition 1)

Conclusion

Round 8 was the third round of testing for the Settlement Disclosure. From this round of testing, one finding stood out as critical: the importance of matching the language, layout, and location of fees between the Loan Estimate and Settlement Disclosure if consumer participants are to be able to compare and evaluate differences between the two disclosures. As the Loan Estimate and the Settlement Disclosure became more similar, the similarity of the language and layout seemed to encourage consumers to look for and comment on differences that previously had been ignored. Consumer participants were easily confused when they encountered differences in language, layout, or location of information. They most wanted to compare the two disclosures and find the differences, so they preferred Design 2 because the presentation of information (particularly the order of pages) matched better. Design 2 also helped lower-literacy participants make the necessary comparisons to assess key differences in costs and fees. We often observed consumer participants (particularly those of lower literacy) put page 2 of the Loan Estimate next to the page with *Closing Cost Details* from the Settlement Disclosure and go through the information line by line. This analysis helped these participants make sense of the information and ask relevant questions about the differences. It is no surprise that matching and similarity would be important to consumers, but the extent to which consumers noted the differences, the level at which they noticed them, and the effect on performance reinforced our intent to match as much as possible.

In this round, consumer participants were put into one of two conditions. In Condition 1, consumer participants saw both the Loan Estimate and Settlement Disclosure, and in Condition 2, consumer participants saw the Settlement Disclosure alone first. Consumer participants could use the Settlement Disclosure alone or with the Loan Estimate to locate key loan terms and relevant costs and fees. Importantly, they questioned items that had changed. Industry participants agreed that the layout would be useful to consumers in understanding key loan terms and costs and fees.

Under Condition 1, consumer participants compared the Loan Estimate to the Settlement Disclosure to find differences between information in the two forms. Because the design of page

1 in both disclosures was an almost exact match, consumer participants could easily compare to find differences in *Key Loan Terms*, *Projected Payments*, and *Closing Costs*. When consumer participants got to the detailed cost and fee information, it became apparent that a matching design was critical. Consumer participants could better use Design 2 of the Settlement Disclosure because page 2 more closely matched page 2 of the Loan Estimate.

Under Condition 2, in which consumer participants only saw the Settlement Disclosure, they could easily use page 1 to understand *Key Loan Terms*, but had difficulties in working with the detailed costs. Without the contextual detail of the Loan Estimate, they didn't understand all of the initial costs and fees. Because the primary action participants wanted to take was to compare, consumer participants in Condition 2 often compared the Settlement Disclosure to the scenario sheet they were given at the outset of testing. This scenario sheet included only basic information, such as loan amount, interest rate, and estimated closing cost.

Under both conditions, consumer participants could verify key information that was important to them (usually *Key Loan Terms* and *Closing Costs*). Importantly, they were activated to ask questions about differences from the estimate to the final. Nearly every participant asked "Why?" when confronted with differences between loan terms and costs and fees. Experienced participants, in particular, were concerned about cost variances and the possibility of "hidden fees."

As in Round 7 (Alabama), consumer participants continued to prefer the inductive logic of the organization of Design 2 in which the summary comes after the detail. Consumers seemed to need the context of the individual items to move onto the summary information. At the same time, consumer participants did not use the *Summary of Transaction* information. In fact, they often seemed confused about how to use this summary and what the terminology in the section meant. It's unclear if they could not relate the detail to the summary or were simply so unfamiliar with the concepts in the *Summary* table that they chose to ignore them.

In addition to *Closing Cost Detail*, consumer participants used the *What Changed?* table to understand the differences from estimate to final. Consumer participants liked having more detail in the *What Changed?* table as well because it helped them better contextualize the information and compare it to the Loan Estimate. Nearly all consumer participants ignored the *Interest Rate Changes* table and the *Increases Over Limits* table. In this round, we assessed different options for presenting information throughout the Settlement Disclosure. Consumer participants preferred shading in *Closing Cost Details*, numbering to denote the line items, a "bottom line" total calculation style, a visual or table layout for escrow on page 4, and a question box that included an icon.

Pages 4 and 5 continued to show similar issues as in previous rounds with one exception: The revised *Refinance* language seemed to help consumer participants understand that future refinance options were dependent on their personal situations and market conditions. As in other rounds, most consumer participants seemed to understand *TIP* and said that they would like this information. However, *LCF/ACF* continued to be misunderstood by consumer participants, with most suggesting deleting this item. Industry participants strongly suggested that both *TIP* and *LCF/ACF* be removed from the disclosure. Consumer participants said they would sign the disclosure, with almost all understanding that it did not bind them to the loan terms.

The Loan Estimate and Settlement Disclosure worked at nearly every level with only minor changes needed. Industry participants, particularly the settlement agent, confirmed that the disclosure would work for industry needs as well. As we prepared for Round 9, the primary focus was to match language, layout, and location of information in the Settlement Disclosure to the Loan Estimate more closely to enhance consumers' ability to compare the two.

Revisions to Prototypes, Round 8

Based on the results of the testing, we made changes to the Loan Estimate and the Settlement Disclosure as documented in the table below.

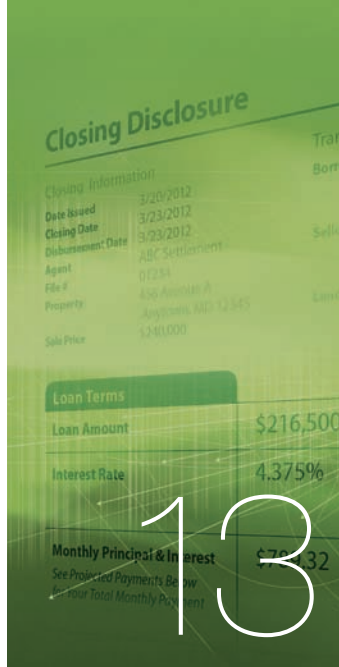
TABLE 32. Revisions to Loan Estimate Prototype, Round 8

Revision	Reason
Page 1	
Moved Loan ID # to the second column and placed it above the Rate Lock	To group all loan related information together, matching organization of Settlement Disclosure
Page 2	
Added title <i>Closing Cost Details</i> to top of page	To match the title on page 2 of the Settlement Disclosure
Added the word "Total" to the summing rows for <i>Total Settlement Fees</i> and <i>Total Settlement Costs</i>	To match the titles on the same summing rows in the Settlement Disclosure
Added the letter "D" to <i>Settlement Fees</i>	To match the lettering on <i>Settlement Fees</i> in the Settlement Disclosure
Re-lettered subsequent sections	To match the lettering in the Settlement Disclosure
Added a letter "I" to <i>Settlement Costs</i>	To match the lettering on <i>Settlement Costs</i> in the Settlement Disclosure
Added a new row <i>J. Total Closing Costs (D + I)</i>	To match the summing row in the Settlement Disclosure
In the <i>Calculating Cash to Close</i> table, replaced the two individual rows of <i>Settlement Fees</i> and <i>Settlement Costs</i> with a row called <i>Total Closing Costs (J)</i>	To match the <i>Calculating Cash to Close</i> table in the Settlement Disclosure
Moved <i>Closing Costs Financed</i> to second row in table	To give more emphasis to costs that are financed
Deleted <i>Limits on Increases</i> text	To match the Settlement Disclosure, which now incorporates this information into the <i>Calculating Cash to Close</i> table
Page 3	
Added to <i>Appraisal</i> this text: "Any appraisal we order for this loan is for our use only, even if we charge you the cost. You can choose to pay for your own appraisal of the property."	To include the appraisal disclosure required by the Dodd-Frank Act for higher-risk mortgage loans
Changed the second sentence of the <i>Refinance</i> section to "You may not be able to refinance this loan."	To simplify the language and to match the language of the Settlement Disclosure

TABLE 33. Revisions to Settlement Disclosure Prototype, Round 8

Revision	Reason
Overall	
Chose Design 2 because of the ordering of information	Participants preferred Design 2 with the <i>Closing Cost</i> details on page 2
Top Information, page 1	
Moved Loan ID # to be above the MIC #	To match the order of information on the Loan Estimate
Projected Payments, page 1	
Changed title from <i>Information about Escrow for Taxes and Insurance</i> to <i>Escrow Information for Taxes, Insurance & Assessments</i>	To clearly link this row to the <i>Estimated Escrow</i> row in the <i>Payment Calculation</i>
Changed reference to Section F to Section G	To match new lettering scheme
Closing Cost Details, page 2	
Deleted column of <i>Financed in Loan Amount</i>	To allow the initial column to be wider to better fit in information about to whom items are paid
Put all items in each section in alphabetical order	To make it easier for consumers to find items, especially when they are comparing the Loan Estimate with the Settlement Disclosure
Added the letter D to row entitled <i>Total Settlement Fees (Borrower-Paid)</i>	To match the Loan Estimate lettering better
Added the letter I to row entitled <i>Total Settlement Costs (Borrower-Paid)</i>	To match the Loan Estimate lettering better
Added the letter J to row entitled <i>Total Borrower-Paid Closing Costs</i>	To better match the Loan Estimate lettering
What Changed?, page 3	
Deleted <i>Increases Over Limits</i> and <i>Interest Rate Changes</i> tables	To reduce the number of tables and unused information on this page and incorporate some information into a new <i>Calculating Cash to Close</i> table
Renamed the <i>What Changed?</i> table to <i>Calculating Cash to Close</i>	To match the <i>Calculating Cash to Close</i> table better in the Loan Estimate
Added a new column called "Did this change?" and added a Yes/No column	To create the same layout as the <i>Loan Terms</i> on page 1 of the Loan Estimate and Settlement Disclosure and to create a place for simple explanations of why the change occurred, or to point consumers to where additional information is in the disclosure
Moved the <i>Closing Costs Financed</i> to the third row of the table	To give more prominence to this item
Created standardized language for each row of the table	To provide standardized language for the explanations
Summaries of Transactions	
Re-lettered the sections	To continue the lettering system of page 2
Page 4	

Revision	Reason
Added title Additional Information About This Loan	To match the title on the Loan Estimate
Used the Escrow Account Information from Design 2	To respond to consumer and industry testing results
Replaced the word "we" in each section with "your lender"	To eliminate inconsistent usage and avoid confusion about who the "we" referred to
Added additional space after the address in Security Interest	To respond to industry feedback regarding room for additional addresses
Adjustable Payment (AP) Table, page 4	
Changed title for this table from "Adjustable Payment Information" table to "Adjustable Payment" table	To match the title of the Adjustable Interest Rate table better
Loan Calculations, page 5	
Replaced Lender Cost of Funds with Approximate Cost of Funds and new definition	To try an alternative approach to LCF
Edited language in all sections	To tighten the language and make it more parallel
Replaced the word "we" in each section with "your lender"	To eliminate inconsistent usage and avoid confusion about who the "we" referred to
Contact Information Table, page 5	
Added a "(B)" and a "(S)" to one of the Real Estate Broker columns	To distinguish the borrower's real estate broker from the seller's real estate broker
Other Disclosures, page 5	
Edited the last sentence of the Refinance section to "You may not be able to refinance this loan."	To simplify the language



Usability Testing Round 9 – Austin, TX (February 2012)

Introduction

After Round 8 (Pennsylvania), the design of the Settlement Disclosure was meeting performance goals of comprehension and comparison. The most resonant finding of the previous rounds was consumers' powerful need to have the disclosure match in terms of language, layout, and location of information. Most of the changes we made for Round 9 focused on better aligning language, layout, and location of information between the Loan Estimate and Settlement Disclosure as well as internal consistency to further enhance the usability of the design. Based on testing results, we removed the *Interest Rate Changes* table and removed the *Increases Over Limits* table to accommodate an expanded *Calculating Cash to Close* table. We also continued to modify the design to improve consumer recognition of interest only loans and partial escrow.

Research Goals

Our overarching goal continued to be understanding of the transaction, comparison, and choice. We had four specific goals for this testing. The first was to determine if consumer participants could compare the Loan Estimate with the Settlement Disclosure to understand settlement costs and fees and to identify key changes from the estimate to the final. The second was to determine if consumer participants could use only the final Settlement Disclosure without the Loan Estimate to understand settlement costs and fees and identify key changes.

Since consumer participants had used the disclosures well with simpler products, for this round, we used a complex and less familiar product, specifically an interest

only adjustable rate loan product. Our third goal was, then, to determine if consumer participants could use the disclosures to understand this loan product. Related to this, we wanted to investigate the effect of the more complicated product on the consumer participants' ability to engage in comparing costs. Our fourth goal was to determine if consumers could use and understand the *Adjustable Payment (AP)* and *Adjustable Interest Rate (AIR)* tables in both disclosures. To accomplish these goals, we set up three conditions, and we explored the following research questions.

Consumers

Condition 1 and 2

1. Can consumer participants use the Settlement Disclosure with and without the Loan Estimate to understand the settlement costs and fees and what changed from the estimate?
2. Can consumer participants use the Settlement Disclosure to understand a complicated and less familiar loan product?
3. Can consumer participants use and understand the *AP and AIR tables in the Settlement Disclosure*?

Condition 3

1. Can consumer participants use the Loan Estimate to understand a complicated and less familiar loan product?
2. Can consumer participants use the Settlement Disclosure to understand the settlement costs and fees?
3. Can consumer participants compare the Settlement Disclosure with the Loan Estimate to understand what changed and why?
4. Can consumer participants use and understand the *AP and AIR tables in the Loan Estimate and the Settlement Disclosure*?

Industry

1. Do industry participants think the disclosures will help consumers understand their transactions?
2. What problems do they think that consumers might have with the disclosures?
3. What issues do industry participants see with implementation?

Who We Tested

In Round 9, we conducted 18 cognitive interviews in Austin, Texas (each lasting 90 minutes):

- twelve consumer participants and
- six industry participants, three lenders and three settlement agents.

We over-recruited for consumer participants with low education and with little home buying experience to ensure we had an even split between experienced and inexperienced consumers.

We also over-recruited for low education to ensure that the disclosure worked for consumers with lower literacy skills. We had six consumer participants with no home buying experience and six with some home buying experience. We had an even split of males and females.

Five of the twelve consumer participants had less than a high school education, four had less than a college education, and three had a college education. In this round, seven of the twelve consumer participants were White, two were African-American, two indicated Hispanic-Mexican, and one was Hawaiian or Pacific Islander. In terms of age, four were between 18-30, three were 31-45, three were between 46-60, and two were older than 60. Seven had a household income of \$70,000 or less.

Because the design of the Settlement Disclosure was performing well with only minor modifications being made to enhance matching with the Loan Estimate, we increased the number of industry participants to focus on compliance and implementation issues with the general design. For this round, we tested six industry participants—a mix of lenders, brokers, processors, and settlement agents. See *Appendix A. Demographic Summary*.

Interview Structure

In Round 9, consumer participants were placed in one of three Conditions to reflect three different scenarios of how consumers might interact with the disclosures. In Condition 1, consumer participants were talked through the Loan Estimate, but were asked to focus on the Settlement Disclosure. In Condition 2, they did not receive a Loan Estimate, but were given a scenario that told them the key Loan Estimate information. In Condition 3, consumer participants received a Loan Estimate to examine and then received a Settlement Disclosure.

Consumer Participant Conditions

Condition 1. Consumers received a diagram of the home buying process to help them understand when they would receive a Loan Estimate and a Settlement Disclosure. This brief introduction, in which the moderator showed consumer participants an initial Loan Estimate and reviewed it briefly with them, was particularly important for consumer participants with no home buying experience. Consumer participants were again shown the home buying process to identify when they would receive the Settlement Disclosure. After this orientation, consumer participants completed two tasks:

- In Task 1, consumer participants did a think aloud on the Settlement Disclosure but could refer to the Loan Estimate if they wanted to compare. They then answered a series of open- and close-ended questions.
- In Task 2, consumer participants focused on the last two pages of the Settlement Disclosure and answered questions about some of the loan disclosures, loan calculations, wording, and the signature line.

Condition 2. Consumers received a diagram of the home buying process to understand the steps in settlement and received a basic scenario. While they were not initially provided with a Loan Estimate, they did receive one after they answered the open- and close-ended questions. After this orientation, consumer participants completed two tasks:

- In Task 1, consumer participants did a think aloud on the Settlement Disclosure. They then answered a series of open-and-close ended questions. After answering questions, consumer participants did a brief think aloud on the Loan Estimate.
- In Task 2, consumer participants focused on the last two pages of the Settlement Disclosure and answered questions about some of the loan disclosures, loan calculations, wording, and the signature page.

Condition 3. Consumers received a diagram of the home buying process to understand the steps in the process and received a basic scenario. After this orientation, consumer participants completed three tasks:

- In Task 1, consumer participants did a think aloud on the Loan Estimate. They then answered a series of open-and-close ended questions.
- In Task 2, consumer participants were told to assume they had chosen the loan they reviewed in the Loan Estimate. They then looked at the home buying diagram again and were told they had just received the Settlement Disclosure for a closing on the next day. Consumer participants did a think aloud on the Settlement Disclosure. They then answered a series of open-and-close ended questions.
- In Task 3, consumer participants focused on the last two pages of the Settlement Disclosure and answered questions about some of the loan disclosures, loan calculations, wording, and the signature page.

Industry Participant Condition

In Round 9, industry participants were placed in one condition. They received a Loan Estimate and were shown the diagram of the Home Buying Process. They then received the Settlement Disclosure. We also showed the industry participants the current Real Estate Settlement Procedures Act (RESPA) and Truth in Lending documents that the disclosures will replace.

Rotations

Four consumer participants were placed in each of the three conditions. We further split the designs across experienced and inexperienced consumer participants.

TABLE 34. Disclosure Rotations, Conditions 1 and 2, Round 9

Participant	Home Buying Process	Condition
TX-001-No Experience	Same	2 (SD only)
TX-002-No Experience	Same	1 (LE + SD)
TX-003-No Experience	Same	2 (SD only)
TX-004-No Experience	Same	1 (LE + SD)
TX-005-Experienced	Same	1 (LE + SD)
TX-006-Experienced	Same	2 (SD only)
TX-007-Experienced	Same	1 (LE + SD)
TX-008-Experienced	Same	2 (SD only)

TABLE 35. Disclosure Rotations, Condition 3, Round 9

Participant	Home Buying Process	Condition
TX-001-No Experience	Same	3 (LE + SD)
TX-002-No Experience	Same	3 (LE + SD)
TX-003-Experienced	Same	3 (LE + SD)
TX-004-Experienced	Same	3 (LE + SD)

TABLE 36. Disclosure Rotations, Industry, Round 9

Participant	Home Buying Process	Condition
TX-001-Lender	Same	1 (LE + SD)
TX-002-Lender	Same	1 (LE + SD)
TX-003-Lender	Same	1 (LE + SD)
TX-004-Settlement Agent	Same	1 (LE + SD)
TX-005-Settlement Agent	Same	1 (LE + SD)
TX-006-Lender	Same	1 (LE + SD)

What We Tested—Design

For Round 9, we had one design with several changes from the last round. The significant changes were:

- including a breakout in *Closing Costs* on page 1 of the components of the *Closing Costs (Settlement Fees + Settlement Costs)* as part of *Cash to Close*
- placing the *Closing Cost Details* on page 2 and the *Summaries* and *Calculating Cash to Close* on page 3
- modifying the *Calculating Cash to Close* table to include a *Did this change?* column with Yes/No answers similar to the *Loan Terms* section on page 1
- moving *Closing Costs Financed* earlier in *Calculating Cash to Close* table
- adding the title *Closing Cost Details* to page 2
- modifying the *LCF*, now renamed *Approximate Cost of Funds*

We continued to edit the language to make it more consumer-focused, understandable, and usable. We also focused on creating even greater consistency or matching across the entire disclosure and with the Loan Estimate.

What We Tested—Loan Type

We tested one design of the Loan Estimate and the Settlement Disclosure and one loan product:

- 5 year interest only, 5/3 ARM.

The Loan Estimate and Settlement Disclosure differed in the *Loan Amount*, *Closing Costs*, the *Closing Costs Financed*, and the partial *Escrow*. See Table 37. Loan Type, Round 9 for more detail.

TABLE 37. Loan Type, Round 9

Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Ficus Bank (Loan Estimate)	30 year 5 Year Interest Only 5/3 ARM with initial rate of 4.375% and maximum rate of 8% in Year 9 Loan Amount of \$211,000 Escrow Cash to Close of \$32,120 Closing Costs of \$9,120	Ficus Bank (Settlement Disclosure)	30 year 5 year Interest Only 5/3 ARM with initial rate of 4.375% and maximum rate of 8% in Year 9 Loan Amount of \$216,500 Partial Escrow excluding HOA fees Cash to Close of \$29,826.23 Closing Costs of \$13,533.29 Closing Costs Financed of \$5,500

See Appendix L. *Loan Estimate and Closing Disclosures for Round 9 – Austin, TX* for the disclosures that were tested in Round 9.

Overall Findings

Consumer participants could use the Settlement Disclosure and Loan Estimate both together and separately, although consumer participants performed best when they could compare the Loan Estimate and Settlement Disclosure. They could locate key loan terms and relevant settlement costs and settlement fees. They could identify the differences between the Loan Estimate and Settlement Disclosure and question items that had changed. Even when consumer participants did not exactly understand the complicated and less familiar 5 year interest only, 5/3 adjustable rate loan product, the loan term and projected payments sections helped them to see that their payments and interest rate adjusted. Both disclosures continued to work well.

Industry participants stated that the disclosures were improvements over the current disclosures and would be relatively easy to implement.

Consumer Performance

In Condition 2, consumer participants received the Settlement Disclosure first – without having seen the Loan Estimate. In this context, both experienced and inexperienced consumer participants actively tried to compare the Settlement Disclosure to the scenario sheet (which included basic information about the loan). They could articulate what they wanted to check – loan terms, loan costs/fees, and whether there were differences from what they saw on the scenario sheet.

“ I’m just kind of like checking to make sure the numbers kind of add up to, I guess, whatever I’d been told. (TX-003-No Experience-Condition 2)

Well I would be looking first [on the Settlement Disclosure] to see if the closing cost matched what I had received on the estimate and if the bottom line looked familiar. I don’t usually look too closely at the line items if they vary as long as the overall ending cost’s the same. So that’s usually the first place I go to. Then if it doesn’t, I go back and start going line by line to figure out what’s the big difference. (TX-008-Experienced-Condition 2)

I’m looking to see if there’s something in this form that I wasn’t sure I was agreeing to. So I have this very last moment to say this is a mistake, I’m not doing it. (TX-008-Experienced-Condition 2)

I’d want to see like the numbers of things, like not in fine print, just like right out there so you can definitely see what they are. That you’re not being tricked or anything. (TX-003-No Experienced-Condition 2)

Assessing Differences

In Conditions 1 and 3, consumer participants first received a Loan Estimate to review and then received a Settlement Disclosure. Consumer participants easily recognized the major differences between the Loan Estimate and the Settlement Disclosure, particularly those on page 1: the loan amount increase, the monthly payment increase, the escrow increase, and the cash to close decrease. They often put the pages of the Loan Estimate and Settlement Disclosure side by side so they could review each loan term and amount against one another. Consumer participants in Condition 2 were given the Loan Estimate after the Settlement Disclosure, and they could use it to easily see the differences between the two disclosures.

Conditions 1 and 3

“ It changed. It was \$211,000 and now it’s \$216,000. It went up. The monthly principal and interest is up by about \$20. Payment after year one also changed. The escrow changed, mortgage insurance changed. Basically everything changed. And the closing costs went down. (TX-001-No Experience-Condition 3)

I was seeing what changes were made. The principal and interest payment didn’t really change too drastically. But that, plus the mortgage insurance difference and the escrow difference, it does make quite a difference. (TX-006-No Experience-Condition 1)

The loan amount is now more and why is that? I’m looking to see what’s driving the loan amount up...That’s what my question is why is this [closing costs] lower and that [loan amount] higher. (TX-009-Experienced-Condition 1)

It always seems on these transactions that there’s a lot of things that are kept low enough to cause you not to break the deal, but still add up to a nice settlement, and there doesn’t seem to be any reason for them. But I find this part of the statement [page 2] very easy to read and laid out pretty good. (TX-011-Experienced-Condition 3)

I see my minimum at year six has gone up to \$1,266 versus the \$1,233. And the large increase here in the mortgage insurance, that seems a little bit out of the line, percentage wise that’s a big chunk. The estimated escrow has obviously gone up. I can understand that with the increase in the loan amount. Now the estimated total monthly payment increase, which has an immediate effect on my finances, has gone to \$1653 and escrow for taxes, insurances and assessments is now \$842.09. (TX-012-Experienced-Condition 3)

Condition 2

“ Just looking at this, I’d much rather have the estimate before the real deal. It’s easy to compare. But you have to understand the format. So that’s pretty helpful...it’s like, this doesn’t match up, that does match up. (TX-003-No Experience-Condition 2)

So this number is what we had discussed on the good faith estimate. Then I might not look too closely at this because I've already factored it into the budget. And what I usually tell my lender is you can move these numbers around any way you like, I don't care, as long as the bottom line number doesn't change. But if it's different than what I said like if I...it says \$6,495 if I had looked at the estimate to be \$4,000 now I'm going to look at each item and want to go through it with my lender and just see where this...where did this change so much and can you show it to me on the form? (TX-008-Experienced-Condition 2)

You are looking at \$1,400 a month as opposed to \$1,653 a month. \$211,000 to the \$216,500. We know where that came from. I see the principal and interest are virtually the same. Very close. I never considered it an accurate...estimates are just that and they are always higher than what you really think about anyway. Yes, it is fairly simple and easy to understand. (TX-010-Experienced-Condition 2)

Questioning Differences between Loan Estimate and Settlement Disclosure

The spontaneous willingness to question the differences between the Loan Estimate and the Settlement Disclosure was a key indicator of consumer participants being able to comprehend, compare, and choose actions to take. As we brought the two designs into closer alignment in language, layout, and location of information, consumer participants, especially those with no experience, did not simply accept the higher differences on the Settlement Disclosure; they actively questioned them. They wanted to know why amounts had changed and what accounted for those changes. They often said they would be less interested in the loan given all the changes they observed.

“ I'd have a lot of questions, a lot of questions on it and before I'd do anything next even if means not getting the house I'd have to actually get the answers I need on this. Why this went up, why that went up and why all these prices have gone up since the last time we talked. It could have been a week ago that we talked and all of a sudden everything has changed by thousands of dollars. And why did it change by thousands of dollars?... How come all of a sudden now I'm paying more for insurance, more for the escrow?... the estimate shouldn't have been that much off. If you've been doing this a long time, you know, it shouldn't be that much off. (TX-001-No Experience-Condition 3)

I didn't think that the estimate would really match the closing cost, but I wasn't really sure how exactly that would change. The first thing I looked at was the bottom line, cash to close, and I thought, "Oh it's good." But then I looked at the monthly payment and I said, "Oh no, that's bad." (TX-006-No Experience-Condition 1)

I would be like I can afford that? I questioned it because it changes...I'd rather have something that stayed the same. At first I was reading and thought "okay." Then I started thinking if there was my loan and my financial situation now and then I started thinking – "okay, no, I wouldn't want that." (TX-004-No Experience-Condition 1)

I'd actually talk to my broker or talk to my own attorney and let them look at that. Because there were some things in there I didn't understand. I'd have actual discussions with the

mortgage broker – hey, I don't understand why this is \$32,000? What is this for and where does it come from?...Is the percentage going to go up? Is everything going to change through the other place or do they buy the contract as is and they have to maintain it that way without changing anything according to percentages and everything else? (TX-001-No Experience-Condition 3)

Understanding the Loan Product

In this testing, we included a complex mortgage loan product titled – 5 year interest only, 5/3 adjustable rate. Consumer participants did not consistently have the contextual knowledge to understand this loan product from the title provided. Therefore, it was even more important that the disclosures help both experienced and inexperienced participants understand the loan product basics and to weigh the potential benefits and liabilities of such a product. While consumer participants did not always fully understand the official title of the loan product, they did understand that it adjusted and changed over time, and understood the extent of such changes. Their understanding came from looking at the *Loan Terms* and *Projected Payments* sections.

Even when consumer participants did not fully understand the loan product, they could ascertain key elements of it from the disclosure. They knew that it changed over time, and they understood that these changes were reflected in variable projected payments. Experienced participants tended to understand both the interest only and adjustable rate aspects of the loan product. Inexperienced participants, though often initially confused, could understand the adjustable rate and changes in the projected monthly payments. Overall, the disclosure gave consumer participants the information they needed to understand the key aspects of the loan.

Inexperienced consumer participants sometimes misunderstood the loan product from the title provided

“ *Five-year interest? I would be paying the interest for five years only, and the loan term is 30 years, so I would pay the interest for five years and then for the next 25 years I'd be paying the mortgage. (TX-002-No Experience-Condition 3)*

Adjustable interest rate – that rate changes based on like how frequently I pay, and the subsequent changes that take it from 5 to 8 percent. (TX-003-No Experience-Condition 2)

Up here I see numbers, and now this is something I would probably know if I was going through the process in real life, but it says five year interest only, 5/3 adjustable rates. I do not know what that means...I understand that adjustable rate means that your rate can change, but I do not know what 5/3 means. (TX-005-No Experience-Condition 2)

Both experienced and inexperienced consumer participants could tell that the loan product adjusted by looking at the information in Loan Terms and Projected Payments

“ It adjusts every three years starting in year six. That means it will jump up. (TX-001-No Experience-Condition 3)

This interest rate is 4.375% and can this amount increase after closing? Yes, every three years starting in year six and go as high as eight percent in year nine. That is helpful to understand. (TX-005-No Experience-Condition 2)

I mean it keeps saying here it adjusts every few years starting with year six, it can go as high as eight percent in year...year nine and it tells me to look at the table, then when I refer to this table there [Adjustable Interest Rate table] it says...it breaks it down. (TX-007-Experienced-Condition 1)

I do know what 5 [year] interest only...to me that means I'm paying interest only for the first 5 years and knocking it out and not diminishing that principal whatsoever which is not exactly agreeable to me. (TX-009-Experienced-Condition 1)

That means for the first 5 years all my payments are going to just go to interest. And then the 5/3, I now understand from looking at the document [particularly tables on 2], means that the rate is going to change after 5, and then after 3 years after that. (TX-011-Experienced-Condition 3)

Rejecting Loan Product

Most consumer participants – both experienced and inexperienced – said that they did not want this type of loan product. Even when they did not fully understand the loan product, consumer participants were not interested in it. Only two inexperienced participants expressed any comfort with the loan, and even they had questions. The other ten consumer participants said they were not interested and cited the interest only and adjustable rate aspects of the loan as the reasons for their decision.

“ Personally, no [I would not choose the ARM], because it is a gamble. I do not want my payments to fluctuate from \$1,653 all the way up to \$2,446. I want to have my budget set for every month. I do not want to have to know it is fluctuate. I do not want it to fluctuate wildly when I might not have that cash to pay that in a month. (TX-005-No Experience-Condition 2)

I myself would not [be interested in this loan]...I don't like the adjustable. I would rather know that my payments are going to be a certain amount. The fact that it could range anywhere between \$2100 to \$2400, I would rather know...It's all written out right in front of me. It's very clear to me that the payment will change. (TX-006-No Experience-Condition 1)

I would never just want to pay interest only on a loan unless my husband's job transferred us on a very temporary basis and we knew 100% certainty that we wouldn't be in that home for more than a certain number of years. But with an unknown, I wouldn't just want to pay interest only and then take the chance of who knows what the interest rate's going to be. (TX-008-Experienced-Condition 2)

I can't see the benefit of I guess paying the interest only in the first five years except to get my payment cheaper than just keeping it even the whole 30 years, because in here it say... it doesn't seem bad but with the fluctuation of interest rate I still can't say I would do it. (TX-007-Experienced-Condition 1)

I would like to have my payment remain the same through the whole duration of the loan, except for the variables of insurance and taxes, which can't be projected. But I don't like the rate...I suppose if I was young and anticipated an increase in income, the lower payment at first for the first 5 years might be an attractive feature for me. But it's not something I like in a loan. I've never had one of those kinds of loans. Maybe this is standard and not objectionable to most people. (TX-011-Experienced-Condition 3)

I don't want to pay that much interest up front and not be paying down any of my principal what so ever. I don't want to cap out at 8%. I want to keep it 4.35% or 5% or 6% or 7.25%. (TX-009-Experienced-Condition 1)

I would prefer a fixed rate...Because the variable could get you in trouble in the future depending on your financial situation, six or ten years down. (TX-012-Experienced-Condition 3)

Negotiating and Shopping Behavior with the Loan Estimate

When using the Loan Estimate, consumer participants were activated to negotiate elements of the loan – particularly the interest rate, settlement fees, and insurance. This behavior was especially true in Condition 3 when consumer participants were asked to examine the Loan Estimate. Even without any prompting or suggestion that the lender in the scenario could change the loan terms, consumer participants wanted to change aspects of the loan and wanted to find out how they could do so.

“ *I would try and negotiate that with the lender...The origination charge – I'm sure that's negotiable. The loan origination fee, I mean, what's the difference there? Those two things I think are probably negotiable. I understand the underwriting fee. I don't understand Verification Fee, unless that's a credit check or something, which is kind of high. So some items within this Settlement Fees. (TX-011-Experienced-Condition 3)*

I'd see if I can lower those costs. I can see that right off, also I have already questioned why I have to pay \$325 for an appraisal fee. There is a chance that the bank could say okay, you can go and you will get your own appraisal?...Again, here in section G, we have that homeowners insurance amount for three months, initial escrow payment at closing. Obviously if I could shop for my own, I may be able to reduce that. (TX-012-Experienced-Condition 3)

I think I would shop around first. I would take this document in consideration, but I would shop around a little more just to compare the interest rate because that's going to be the deal breaker right there...If I have to pay more to get the year's cut down, I would if it's in my budget. If not, I would have to find me something affordable. (TX-002-No Experience-Condition 3)

Rating of Settlement Disclosure

To rate the Settlement Disclosure, consumer participants used a scale of 1-5, with 1 being the worst disclosure they had ever seen and 5 being the best. The average rating was a 4. Consumer participants cited the layout, the organization, and its readability as reasons for ranking it highly. One lender called it “the best mortgage-related form I’ve ever seen.”

“*The strong points are laid right out in front of you. You know how much your monthly payments are going to be for the next few years or approximately. You know how much you need to bring at closings. You have your interest rate right up here. The only change I would make is putting the estimate totals [all] on the same [Settlement Disclosure] page [2] just so you could compare. Alright, I would give it a 4. (TX-006-No Experience-Condition 1)*

Everything is there. They're not really hiding anything. So it's pretty straightforward, like the key sections, so [I'd rate it] a 4. (TX-003-No Experience-Condition 2)

I would probably put it at the 4. I can actually say 5 it's the best form I've ever seen. The settlement statements I've seen are the HUD statements. They're one page, legal size and all this information is on it but without any kind of explanation. (TX-009- Experienced-Condition 1)

Well I have to go with number 4, somewhat good form. Obviously I have got more detail here and if I spend the time to read and study, it does clarify some of the questions I had, particularly the increase in the loan amount, I understand why. (TX-012- Experienced-Condition 3)

[I'd rate it] pretty high. Probably a four...But it's very easy to follow, very easy to read and friendly to the eye instead of having to flip through many different contracts and paperwork. (TX-Lender-001)

I think I have seen some pretty good forms in my lifetime. It is the best mortgage related form I have ever seen. As far as forms go I mean...as far as completeness of any type of a form...it is probably the best. It would be all encompassing in what we're trying to accomplish with the borrowers. It's good. (TX-Lender-006)

Challenges in Implementing the Loan Estimate or the Settlement Disclosure

Industry participants believed the Loan Estimate and Settlement Disclosure would be an improvement over the current disclosures, although one participant identified resistance to change as the primary barrier. They mentioned that new disclosures in the past have caused some challenges, especially fitting new disclosures into already established systems, but they believed these disclosures would be the same as or easier to implement than the current GFE and HUD-1 settlement statement.

“ We thought it was going to be horrible, and we were cussing, we were like, “Oh, we don’t want the new HUD,” and we loved our HUD, but it wasn’t that at all. It really wasn’t. Page 3 took a little getting used to, but once we got used to it, I mean, it’s not hard to do the HUD now, the same that it did before. But we’re used to it. And for this one now it’s going to be the same thing, we’re going to overwhelmed, and like, “Oh, my gosh,” and once that we do it, it’s just, again, getting used to the new form and working with it. (TX-Settlement Agent-005)

From what they’ve done to us in the past compared to this, the changes of the GFEs and what not, those were a lot more difficult because how you can disclose things and what you had to put in—red flags on certain things. I have been with other lenders or brokers versus the lender I am with now and it has been a big nightmare. This doesn’t seem difficult at all if it were able to be this and to start using this. The problem is how each individual company incorporates that into their already established system and what it’s going to take to get it there. (TX-Lender-006)

No [I don’t anticipate challenges in implementation] because all the numbers are straightforward. I mean, pretty much the same as that. In fact, they seem to be more broken up than the good faith estimate. Or it’s just more appealing to the eye than the way that one is. (TX-Settlement Agent-003)

Very little [in terms of challenges in implementation]. Without studying it a whole lot, it just seems like it’s a well-packaged version of all this [current HUD-1 and associated documents]...Just putting this across the table from somebody and explaining line item by line item, it’d be one document versus arguably seven-eight pages. (TX-Settlement Agent-004)

Summary Information, page 1

Key Loan Terms

For the Settlement Disclosure, industry participants felt page 1 clearly laid out the key terms and key information that consumers would be looking for. They also said the simple layout and easy-to-find information would help consumers compare.

“ It stands out where they’re saying this is how much I’m borrowing, that’s my interest rate, that’s my payment. That’s one of the questions I’ve got, that’s asked a lot of a closing rep when they start signing, “Oh, I want to see my interest rate versus my payment. What is that?” So you get to the package and pull those forms out and show them. But that’s nice, on the closing side, that that’s right there. (TX-Settlement Agent-005)

I'm seeing everything I need to know. My payments, how much I'm escrowing, and how much I'm bringing to the table for closing purposes is the first thing I'm looking at, and then I want to double check so I can look in here somewhere. So yes, as far as a summary sheet, I think this is superior to what we've got. (TX-Settlement Agent-004)

It puts all of the important information on page one; the loan type and the loan product, the loan amount. I like the way it is bolded out with the heading to where you can quickly find what you need on the form. You can find it very easily. (TX-Lender-002)

Page 1 looks very good because it's very simple and very easy to follow...Everything is labeled. You can easily sit here and compare things. (TX-Lender-001)

Projected Payments

Consumer participants, especially inexperienced participants, easily understood – and liked – the *Projected Payments* table. Even when consumer participants did not initially fully understand the loan product, *Projected Payments* continued to help them see that the loan changed over time and that their payments would vary in the future.

“*Estimated total monthly payment is \$1,400. The principal and interest is basically the monthly payment plus the interest and then you have your insurance and escrow, taxes and stuff. (TX-001-No Experience-Condition 3)*

It includes the principal and interest. They have a maximum and minimum. It includes mortgage insurance and it also includes the estimated escrow...because the percentage probably went up after six years...It states it up here that it adjusts every three years starting in year six. So as it adjusts and then the estimated escrow probably adjusted as well. (TX-001-No Experience-Condition 3)

I do like how we could see this broken down years one through five, six through eight, nine through eleven, twelve through thirty, because the thing that I am most surprised by, which I know a lot of people, and I cannot speak for everyone, but during the housing disaster, I bet people were surprised to see these numbers go up in future years, which I was personally surprised by just by looking at this. In my head, that is an adjustable, and in my head it is as you pay off, your amount would stay the same, or potentially go down as you keep paying off. That was a little surprise. I do like how that is telling me, year after year, what is happening...I think probably if they were only seeing 4.375% and nothing else, I think they might be misled. I think seeing what you are going to be paying month-to-month will be very helpful. It would help me. (TX-005-No Experience-Condition 2)

So assuming that in year six it adjusts some amount and it...and then under maximum it looks like. So assuming the maximum I guess you'd have to budget for the maximum would be \$2,446 when you add in the mortgage insurance and the escrow. (TX-008-Experienced-Condition 2)

Variable Payments

In this round of testing, two consumer participants saw the variable payment amounts as “options” for making a payment.

““ The minimum or like the maximum amount you can pay for that month, and the mortgage insurance and then the escrow again... Maybe you could just pay more if you have money. (TX-003-No Experience-Condition 2)

Well it says \$2,130 to \$2,446. I would probably do the \$2,130 because after paying \$2,000 for that loan I probably couldn't go much higher. It wouldn't be in my budget to pay any more than what was due. (TX-010- Experienced-Condition 2)

Displaying Principal and Interest

At times consumer participants saw the “principal and interest” line under *Projected Payments* and became confused because they knew no principal was being paid until after year 5. One participant suggested having two lines – one for principal and one for interest.

““ Well it says principal and interest so I assumed that there was principal included there. So I didn't catch that at all. I would almost make that a separate line item and just say interest only and have the payment next to it, and have the principal blank since there's no principal or a zero right there... I would say principal and interest if you break that out as a line item so that it's more clear that there's zero principle being paid in years one through five. That would have caught my eye. (TX-008- Experienced-Condition 2)

Closing Costs and Estimated Cash to Close

At times, consumer participants – especially those who were inexperienced – were confused by the terms *closing costs* and *estimated cash to close*. They often used these terms interchangeably.

““ Now I'm confused because this says Final Total Closing Costs \$13,533.29 and the amount on that says \$6,409, so... Yeah, which amount would I have to put down to close? (TX-002-No Experience-Condition 3)

I had that question earlier. Here, it says closing costs, it says \$6,409. But here, it says total closing costs in Section J under Settlement Costs is \$13,533. (TX-002-No Experience-Condition 3)

I guess closing costs would be like a summary of all these things, like on page 2, all these things I'm actually paying for, and then that's the closing costs. And then cash to close is the random figure they're throwing at me. (TX-003-No Experience-Condition 2)

Is this \$32,120 including fees and all that stuff?... That is my first question, because the down-payment is \$29,000 and give them \$5,000, but the estimated cash to close is more than what I would expect. (TX-005-No Experience-Condition 2)

You need much more accountant-type people in here. The cash to close, I do not see where that number comes from. Let me look at the blue sheet because that blue sheet was easier. The down payment of the loan which was approximately \$29,000, so now it is up to \$29,826.23. Settlement fees are \$6,400, settlement costs are \$7,100 and that adds up to \$13,000. Then you go to this next page and it has the cash to close at \$29,000, so I am trying to figure out how it jumped up from \$13,000 to \$29,000 on this next page. (TX-005-No Experience-Condition 2)

You could actually just put it in like two lines of information. Total closing costs, prepaid closing costs, due at closing. Make it into like one bullet. Even as a separate page or separate subtitle beyond. (TX-010-Experienced-Condition 2)

For the final two participants, we changed the wording at the bottom of page 1 for *Estimated Cash to Close* to show in a parenthetical calculation that *Closing Costs* were made up of both *Settlement Fees* and *Settlement Costs*. This change helped consumer participants understand the difference and track to the second page which listed details of the *Settlement Fees* and *Settlement Costs*.

“ *I have to write it for \$32,120... That's going to include the rest of my down payment and the closing costs, the outrageous closing costs, and the settlement fees and settlement costs. (TX-011-Experienced-Condition 3)*

We have closing costs, which comprise the settlement fees plus settlement cost. So I may want to have some explanation, breakdown of the fees and cost which is actually I am told that I can find on page 2. (TX-012-Experienced-Condition 3)

Partial Escrow

The particular loan example we tested included a partial escrow on the Settlement Disclosure. The full amount of the escrow was listed in the *Escrow Information for Taxes, Insurance, and Assessments* on page 4. However, the amount listed in the *Estimated Escrow* in the *Payment Calculation* was lower because it did not include the HOA fees that the homeowner would be required to pay. Both experienced and inexperienced participants expressed confusion when they noticed those differences and could not always tell what wasn't being covered. Only a few consumer participants could articulate that the difference was due to the HOA fees referenced on page 4.

“ *The \$842.09 a month for escrow, for your escrow payment, but up here it says escrow is \$699.50. I know the amount can increase over time, but I am confused: is this an additional \$842.09 a month, or is this somehow related to \$699.50? (TX-005-No Experience-Condition 2)*

The only reason is I'm not sure if these payments are broken up into different payees. Because you said I would be cutting a check to the bank... I wasn't sure if maybe I had to pay the insurance separately to the actual insurance company or not. (TX-006-No Experience-Condition 1)

Hmm. Is [escrow] \$842.09 or is it \$699.15? I see up here it is estimated for the \$699.15. So I'm wondering if it is \$842.09 and how long that is or when that is going to change. (TX-006-No Experience-Condition 1)

It doesn't break it down here between taxes and insurance...it just says escrow here at \$842 a month. It says \$842 approximately but here it also says estimated \$699. (TX-010-Experienced-Condition 2)

If I take the time to read a little bit further, I can see what my total payment is, which includes mortgage and the estimated escrow, but I am trying to understand, I would like to understand a little bit more about the escrow. (TX-012-Experienced-Condition 3)

Now here's something, Non-Escrowed Property Costs \$1,700. These are the estimated amount, total amount over one year for non-escrowed, escrowed property costs listed below. Listed below—where? Oh, HOA dues...I'm trying to figure out what the \$1,700 is. Non-escrowed property costs. Estimated total amount over year 1 for the non-escrowed property costs listed below. HOA dues. Year 1 property costs \$1,711. I'm having trouble figuring out what that is. (TX-011-Experienced-Condition 3)

Industry participants thought the Escrow information would be confusing for consumers, particularly the concept of partial escrow.

“ They'll probably have questions as far as what every single number [in escrow] means. Non-escrow property cost, they're going to want to explain that since they are opting to have escrow. A bunch of people would look at that and not understand it. (TX-Lender-001)

Well, that [escrow] is confusing. So it's not really an escrow payment, because it's not part of your loan. So I don't see why it should be in there...I still don't think it needs to be in that number, because it's not an escrow, and that's going to throw them off. That's not their escrow pay. So why would it be a big number also because that's not their payment? And to do this loan they signed a whole bunch of other stuff with their HOA that they have to pay. So I think that's confusing. (TX-Settlement Agent-003)

I think it needs to be in a completely separate box that would say "non-escrows that are due yearly" or...I don't know how you would word it, but it's not your escrow account so it's not an escrow at all. I do see where it needs to be there, especially for the insurance, but just lumped in with escrow. I think that's confusing...people might get comfortable and say, "Oh, okay, that's in my payment. That amount is in my payment. And that's okay." (TX-Settlement Agent-003)

Maybe include a little clearer visual breakdown of what the \$842 goes to literally on a monthly basis, so you've got \$400 going towards taxes, \$250 going towards insurance, and etc., etc. (TX-Settlement Agent-004)

Closing Cost Details, pages 2 and 3

Settlement Fees and Settlement Costs

In this round of testing, we asked consumer participants to state what they saw as the difference between *Settlement Costs* and *Settlement Fees*. Even though consumer participants were able to describe the general characteristics of the categories, no consumer participant could fully or easily describe these differences, specifically, that the settlement fees are related to the lender and the settlement costs are related to the property and transaction. Interestingly, in this case, the similarity of the headings (settlement fees/settlement costs) did not help consumer participants understand the differences and at least one participant called them “confusingly similar.”

“*The settlement costs, that’s just the price. It’s not going to change because it’s the taxes and government fees that never changes. So the settlements fees they’re subject to change at any time. (TX-002-No Experience-Condition 3)*

It seems to me, by looking at this, and this is my interpretation, that maybe the fees are one-time fees and the costs are ongoing. (TX-004-No Experience-Condition 1)

I think that they’re confusing, and they’re confusingly similar. But a fee would be an individual amount charged for a single service and the cost would be the total in my opinion. I’m not sure what the...that there’s a whole lot of difference between the two. In my opinion when I look at the settlement fees and the settlement cost, I’m kind of thinking the same thing. Money out of my pocket either way so it’s kind of the same thing. (TX-008-Experienced-Condition 2)

These [settlement fees] are costs that are incurred by the entities that are helping you close on this property. Meaning the financial institution or the title company or the whomever. These [settlement costs] are costs that you actually incur as a result of buying the property exclusive of what you had to pay to the entities who are helping you get the loan. (TX-009-Experienced-Condition 1)

For half of the consumer participants, we showed alternate titles for the *Settlement Fees* and *Settlement Costs*. The alternate headings were “Loan Costs” for *Settlement Fees* and “Other Costs” for *Settlement Costs*. Consumer participants preferred a hybrid of the options, Loan Costs and *Settlement Costs* for the alternate headings.

“*I like settlement costs for this one because it’s just...that’s what you’re going to be and I like loan costs because it’s telling you those are all the things that are associated with getting the loan from the bank so that they’re...I wouldn’t call it settlement costs. I like loan costs better for the settlement fee. (TX-007-Experienced-Condition 1)*

I prefer the loan costs - that would be fine for settlement fees...That can be confusing. Somebody sees settlement twice and they are not sure quite what the difference is between the fees and the costs. (TX-010-Experienced-Condition 2)

Loan cost is more succinct, is more meaningful to most people over the term settlement fees. However, settlement cost, I think the two other costs is not as straightforward. I think settlement cost is a good term. (TX-012-Experienced-Condition 3)

Breaking Down Fees and Costs

Most industry participants thought the Settlement Disclosure had broken the fees and costs down enough. One industry participant described the same findings that we saw with the development of the Loan Estimate—that if fees were not broken down, consumers tended to accept the fees and not question them. A few offered some additional suggestions about how to break fees and costs down more.

“ So they want to know where everything is going...because also separating it so much people might think that they're being charged to death. (TX-Settlement Agent-003)

Well, right now, on the HUD they are kind of bundled. So are you asking shall we keep them that way or break them up? I think the consumer likes to see them broken out. Well, yes and no. Because when they see it, well, "Why am I paying that one?" And then they start nitpicking. So the bundled is kind of nice because then it's just one fee that they see and they don't question it much. But they go like, "What's in that \$2,850? I saw something." And then you're like, "Well," and now we're looking for our closing instructions, then, "Well, it's for processing and the broker, underwriting." (TX-Settlement Agent-005)

I think these fees are important to be broken down like this...A lot of times when you are competing with other lenders' fees they may have this already...in the past I have seen it to where they've really increased certain fees versus...for instance we have a processing fee of \$300, they may have a processing fee of \$700 but they are telling you that you get a discount somewhere else. I think it is important just to break them down. There are not that many fees. Why not have it on here? (TX-Lender-006)

So loan origination fee and points to me are essentially the same thing, but I do understand why some people differentiate them. (TX-Settlement Agent-004)

Calculating Cash to Close Table

Consumer participants often commented that they liked the *Calculating Cash to Close* table on page 3. This table showed them the “estimate” versus “final” and gave them a better sense of what changed. For consumer participants who questioned changes in the costs, this table helped them understand what had happened. Industry participants thought consumers might miss the explanations in the table but thought the table included all of the right information.

“ This section [*Calculating Cash to Close* table] – I understand it. I'm picking it up a little bit. The down payment was \$29,000. I financed an additional \$5,500 to help with closing costs. And the deposit they used as well they put that in here as well as part of the deposit. So they used that. And then the seller credit is another thousand and adjustment in credits – so everything is negative including the 830 is all in there. So you

have the \$13,000 here and you add \$13,000 and the \$29,000 and everything else in here makes it that \$29,826. (TX-001-No Experience -Condition 3)

I like this little chart [Calculating Cash to Close table] that tells you what has changed. That is nice. (TX-005-No Experience -C2)

[Looking at the Calculating Cash to Close table] Now I see the closing costs, \$13,000 carried forth from the previous page, \$13,533.29. I see that there are some deductions in things that, I guess, were already paid before closing, or include these closing costs in your loan amount, which increased your loan amount. So I imagine that \$5,500 was put into the loan somehow, so they are adding in my down payment, subtracting the deposit. I can see this being added to the \$29,286 and see there is a difference in the estimates. So this number was carried forward from there, they deducted all of these things that were previously paid, or added to the loan, and then they are adding in what I have to pay as my down payment and a few other adjustments and credits here. Now that makes sense. I see that this \$13,533 was carried forward from the next page. (TX-005-No Experience-Condition 2)

I'd like that [Calculating Cash to Close table] right up front, because that's kind of the bottom line. But I'm sure I would get to this if I would take my time and do things as a prudent individual should do. But that's not that bad, putting it back there. (TX-011-Experienced -Condition 3)

Well I am happy to see that it is labeled what is changed from your loan estimate [in the Calculating Cash to Close table]. So it gives me a comparison breakdown here which I am happy that they are doing this, although I may not agree with it. Total closing cost, we have the estimate and then we have the final. (TX-012- Experienced -Condition 3)

I think that's [Calculating Cash to Close table] very good. Because they probably studied this for over a weekend, and this is what they want to see. And this would make it easy for them to look at it and say, "Okay, this is the final one. Okay. Let me make sure. I want to see what changed." Because they do bring in the good faith with them a lot to closing, and they compare it to a HUD. So that's where this would be helpful, to have it broken down, because that's when they start questioning, "Okay, well, this and this, how much?" Because they're looking at one form versus the settlement statement. So it is kind of hard for them to see this, to see what's there. (TX-Settlement Agent-005)

I just noticed the estimate and the final...my eye did not go directly to see this explanation over here. I just saw the yes and then the notes. Didn't really even pay attention to what the column name was. Maybe if it was explanation or reason. Reason would be better. Then people wouldn't automatically go and look over there. (TX-Lender-001)

Financed in Loan Amount

In both Round 8 (Pennsylvania) and this round, the Settlement Disclosure included financed closing costs in the final loan amount that were not financed on the Loan Estimate. These financed closing costs raised the final loan amount by \$5,500. Consumer participants noted that the loan amount had increased from the Loan Estimate, while they were looking at page 1 of the Settlement Disclosure. However, in both rounds of testing, consumer participants (particularly those who were inexperienced) had trouble accounting for the change. Round 9 participants had more success finding the financed closing costs in the *Calculating Cash to Close* table.

“ That I financed? Yeah, I’m just kind of skimming for the word “financed.” And I don’t see it. Yeah, I don’t know, that’s on page 2, where it says “financed”? (TX-003-No Experience-Condition 2)

The estimate [of cash to close] was \$32,000 now its \$29,000...This sounds better I have less cash to close and that was because we decided to finance some of my closing costs. So by financing some of my closing costs it makes it a little bit easier to come up with the \$29,800 rather than \$32,100...it’s not a significant change. Am I happy with this? Yeah I’m a little bit happier. (TX-009- Experienced-Condition 1)

Well it is also saying that I put in \$5,500...they rolled \$5,500 of the closing costs into the note. That is why it probably went from \$211,000 to \$216,500. (TX-010-Experienced-Condition 2)

Okay, now I understand. I decided to put the closing cost into my loan amount. Therefore I didn’t have to pay that \$5500 upfront. That’s why, I can see that...I made that decision, I can’t complain about the difference. (TX-012-Experienced-Condition 3)

Summaries of Transactions

As in Round 8 (Pennsylvania), consumer participants did not use the *Summaries of Transactions* information on page 3 of the Settlement Disclosure. Consumer participants seemed to understand their transaction sufficiently after using the *Closing Cost Details* on page 2 or the *Calculating Cash to Close* table on page 3. It is unclear if they did not see the relevance of the *Summaries*, had sufficient information already, or simply failed to talk about the *Summaries of Transactions*.

“ At some point, these numbers are just like...a borrower’s transactions and seller’s transactions. What does that mean? So this is saying, I am on the left here as the borrower, and the seller. Wait, the borrower is the bank...You know, the problem is I do not know all of these terms and am confused by this, and there is all the discrepancy of the \$253,167 and \$240,467. If I am comparing these two columns, isn’t that supposed to be the same, if I am borrowing this amount, isn’t that supposed to go the seller? (TX-005-No Experience-Condition 2)

Adjustable Payment (AP) Table and the Adjustable Interest Rate (AIR) Table

Consumer participants understood both the *Adjustable Payment (AP) Table* and the *Adjustable Interest Rate (AIR) Table*, and industry participants also thought the tables would be easy to understand and provided good information. Even the inexperienced participants could connect these tables to information provided on page 1 and saw how the tables provided more information related to the type of loan. Consumer participants indicated they were not familiar with some terms, such as *Step Payment* and *LIBOR*.

AP Table

“ It says interest only payments, meaning you don’t have to pay anything other than just the interest. You don’t have to pay any principal. I mean that’s what I’m getting on that one there [the AP table] – that you only have to pay the interest which would leave you a lot of money laying out there to pay later. But then it’s telling you after that your first change would be pending after this 61st payment, and it could change every three years. (TX-001-No Experience-Condition 3)

The first five years you are only paying interest. You are not getting down the principal. Optional payments, no. Step payments, no. I do not know what they are, so it is good they are not there...Subsequent changes every three years, and the maximum payment you are going to make is \$1,664 starting at 108 payments. That is where it breaks down a little bit more, this charge on the first page. (TX-005-No Experience-Condition 2)

I think it’s easy to understand interest only, yes, for the first 60 payments. So that right there tells you after 60 payments you’re not paying interest and you will be paying obviously more. So I think it’s self-explanatory. (TX-Lender-001)

AIR Table

“ It’s showing what the initial rate is...and then it says your minimum is going to be up 5% or 8%. It’s just saying it can be anywhere in here depending on what the bank wants to do. They can jump 8%. They’re not saying we’re going to do it – the sixth year we’re going to up 5% and then the ninth year we’re going to go up 6%. They can jump up to 8% that quick all at once depending on what they want. They’re just telling you when it changes and how long it’s going to be before it changes again. Right there it’s saying the first change is 3% and after that they can change it 3% which means it can be 8% right after six years...it’s connecting here [to page 1] and I understand why it’s connected on the loan terms and interest rate. (TX-001-No Experience-Condition 3)

The interest rates, they’re the same for the initial first three years. It says the first change starts at the beginning of the third year, that’s said on the first page, too. Yes, those match up. Again, yeah, every three years the interest rate goes up a little bit. (TX-002-No Experience-Condition 3)

My take-away is that this is that calculation I was asking about earlier, which is how this adjustable rate is determined. It seems like it is always going to be determined by LIBOR plus four percent...Once you get into year six, you are never going to go below five percent. That is my take-away. That is why these adjustable interest rates are so screwy, because you think "oh I am getting 4.375 percent!" But that is not really the case. You are really getting five percent and then you will be paying eight percent for most of it. (TX-005-No Experience-Condition 2)

I'm looking at the adjustable interest rate. The max it can go to is 8%, which is high for real estate. The limits of the change are 3%, and I don't know what the first change is. I'm a little confused if it's automatic or if it's based on something in the market or something. (TX-011- Experienced-Condition 3)

It is giving you your index plus your margin amount for the percentage of your margin, and it allows you to calculate your interest rate along with the maximum interest rate I guess... That the first adjustment is going to begin on the sixty-first month and every other change is six months after the first change. The interest rate change would be three percent, so it changes three percent...it is pretty clear I guess as far as giving you your rate and how it is going to change my final amount. (TX-Lender-002)

Additional Disclosures, pages 4 and 5

Total of Payments

Consumer participants used and liked the *Total of Payments* on page 5 of the Settlement Disclosure. Both experienced and inexperienced consumer participants often commented on the total amount and saw it as an important piece of information that would influence them to select a different loan.

“ *The \$704,000. It's a lot of money to pay. But I know that's because of the loan cost itself and then how much was financed. So the bank makes quite a bit of money. (TX-001-No Experience-Condition 3)*

Hey, here we go. This is what I was talking about. Is this really going to cost me \$704,000?...That is insane. See, this is what people do not know. (TX-005-No Experience-Condition 2)

The grand total of all your payments once you're done which is a number that you try to avoid if you can. The final...the dollar amount that the loan will cost you in finance charges...this is a really great little table. I like this because it really summarizes in the end after all the adjustments and everything that happened this would be the grand total that you will end up paying out-of-pocket in the end. So this is a really good little chart. I like it. (TX-008-Experienced-Condition 2)

Total Interest Percentage (TIP)

As we have seen in previous rounds of testing, consumer participants both understood and liked the *Total Interest Percentage (TIP)*. They often stopped and commented on the *Total Interest*

Percentage – some calling the amount “shocking.” In this round, consumer participants seemed to both understand and use this number and it made them less interested in the loan. In this round, industry participants agreed that it was a useful comparison measure and would help prepare consumers for what they would ultimately be paying.

“ Total amount of interest that you will pay over the loan term as a percentage of your loan amount. So over the entire term of your loan you’re paying 99% interest. So you are almost doubling. You’re almost doubling your loan. (TX-001-No Experience-Condition 3)

The total interest percent, the total amount of interest you will pay over the loan, now at a ninety-nine percent interest rate. I do not know what the difference is between all of these percentages, so these are sticker shock percentages because these are different than what was on the first page. Again, maybe to a lot of people it does not make a difference to them, but to me it would. (TX-005-No Experience-Condition 2)

Well, as I said it’s a shock to see that you’re paying so much in interest and other costs over the term of the loan, but if you think about it a while you can come to grips with it. (TX-011-Experienced-Condition 3)

They can look at that and think why am I paying so much interest? It can always, that can be scary. So like if they’re 99.1 percent or 1 percent interest...If purchasing a home everyone knows that’s the biggest purchase you’ll probably ever make so you expect to have a large and pay a lot of interest, but it can just be scary for people. Which goes back to how I said earlier it might scare them off but if you aren’t able to do the loan then you should be prepared at the beginning of the process. So all in all it’s a good thing to have here because it does allow people [to know] what they’re going to be paying. (TX-Lender-001)

Approximate Cost of Funds (ACF)

Despite our efforts to change the language and the title, consumer participants did not understand ACF and, therefore, did not find any utility in it for their decision-making about the loan. Consistent with all other rounds of testing, consumer participants could read that ACF was not a direct cost to them but questioned why it was disclosed and/or wanted to know who was paying it. Industry participants again thought it was not useful to include since it was not a direct cost to consumers.

“ It’s saying it’s 1.22% of the loan but it’s not a direct cost to me. So who pays it? I want to know what that is – what it is – cost of funds used to make this loan and who is paying. Because somebody is paying for that fund and it has to do with the loan I’m doing. So where is it coming from? (TX-001-No Experience-Condition 3)

My take-away...is this is something I am not paying for? Are they trying to say hey, we are using 1.22 percent of our own money to make this happen? I do not understand. If I am not paying for this, then why is this listed here? (TX-005-No Experience-Condition 2)

...as we go forward are there definitions that come with this that would tell me what is the approximate cost to lender so I don't have to ask? I can just read it, read it to myself and figure it out. But I would ask, what does that mean, what is that number? And is that in addition to something? (TX-008-Experience-Condition 2)

Approximate cost of funds: The approximate cost of the funds used to make this loan. The approximate cost of the funds used to make this loan. I think what this is telling me is the 1.22% of the loan value represents the cost of processing this loan that is the cost by the lender...unless I am an accountant, it is rather irrelevant to me. (TX-012-Experienced-Condition 3)

This is not a direct cost to you. I don't believe that would necessarily be needed. Of course, it's good to have full disclosure, yes, but I don't see a dire need for that information exactly. (TX-Lender-001)

Appraisal

In this round, we tested two versions of new appraisal language to incorporate an additional disclosure requirement under the Dodd-Frank Act. Version 1 said: "We will promptly give you a copy of any written appraisals or valuations that you pay for, even if the loan does not close. Any appraisal we order for this loan is for our use only, even if we charge you the cost. You can choose to pay for your own appraisal of the property." Consumer participants found this language confusing and did not understand under what conditions they would want or need to order their own appraisal.

“ *It's basically saying that if you pay them to do the appraisal of home for you then you get to keep the appraisal even if you don't close the loan...So if they give it to you and you don't go with them that means you get to take that appraisal and go somewhere else and you can use it there. It's your appraisal. They're giving it to you so you can use it somewhere else. (TX-001-No Experience-Condition 3)*

It says any appraisal we order for this home is for our use only, even if we charge you a cost. That doesn't sit well with me. I want to receive...I want paperwork of anything that I give my money to. (TX-002-No Experience-Condition 3)

What I am getting from this is they may order their own appraisal, for their own use, the bank's use, and they are going to charge you the cost of it, but you do not get that one, but you can choose to do your own appraisal of the property. To me, that struck me that you are paying twice if you are going for the bank's internal appraisal of it, and you have to pay again for your own appraisal of it? That was my take-away from that. (TX-005-No Experience-Condition 2)

That's telling me that...I guess you all would have the property appraised and...if I think it should be worth more or worth less then I should go in and have my own appraisal. (TX-007- Experienced-Condition 1)

Wow that's really disclosure isn't it? It says you can look at it but it's ours. You paid for it but it's ours. You're disclosing to the client the full realm of what that means when you pay for that appraisal. That the appraisal can then be used by the company that is charging you for it, it's not your private property...I'm like: how dare you? Why would I pay \$300 so you can keep what I did? As a lender you have to be privileged to that information and it goes in the file and it's part of your documentation. (TX-009-Experienced-Condition 1)

Appraisals: we will probably give you a copy of any written property appraisals that you pay for even if the loan doesn't close. Okay, I understand that. Any appraisal that we order for this loan is for our use only, I can understand that. Even if we charge you the cost, you can choose to pay for your own appraisal of the property. Is that in conflict with page 2, section B, which says Services You Cannot Shop For? Yes, appraisal fee is \$305 and then on page 3 it is telling me I can choose to pay for my own appraisal of the property. Now is that telling me that it is in addition to the \$305 that I already have to pay. (TX-012-Experienced-Condition 3)

"You can choose to pay for your own appraisal of the property." I think I understand that, but a lender's decision is based on their internal appraisal evaluation. I think that could be misconstrued and just kind of giving the example if a consumer pays for his or her own appraisal, then that could be handed over to the lender to make the decision on the value and on the loan. (TX-Settlement Agent-004)

That was confusing on you can choose to pay for your own appraisal. You just got it. Why are you having to pay for it again? This leads them to make them think that if their value doesn't come in the right way they can order another one and maybe use that one. (TX-Lender-006)

For half of the consumer participants, we also tested Version 2 of the appraisal language: "We will order an appraisal to determine the property's value. You will pay for this appraisal, and we will promptly give you a copy, even if your loan does not close. You can also pay for your own additional appraisal of the property." Consumer participants found this language much clearer and easier to understand. They had fewer questions about the appraisal process when using this version.

“ This [Version 2], by the way, is a lot clearer than this [Version 1]. No, I think now that you explained that to me, I think that makes sense. We will order an appraisal to determine the property's value, and you can get your own additional appraisal of the property. We will probably give you a copy of any written property appraisals, even if your loan does not close. That would make sense. (TX-005-No Experience-Condition 2)

[Version 2 is] more clear, more straightforward. (TX-006-No Experience-Condition 1)

So yeah I mean this [Version 2] certainly is friendlier...what are they trying to stop me from doing there [in Version 1]? (TX-008-Experience-Condition 2)

I like this one [Version 2] much better. I can see it's clearer. It's just plain spoken. (TX-011-Experienced-Condition 3)

This [Version 2] is much better. This last sentence tells me, you can also pay for your own additional appraisal of the property, that's very good, I like that. (TX-012-Experienced-Condition 3)

Contact Information

As in Round 8 (Pennsylvania), consumer participants and industry participants mentioned that they liked the stand-alone *Contact Information* section on page 5 in the Closing Disclosure because it would be a handy reference.

“ *Contacts and stuff. All that information would be in there as well. People that you've talked to. That has all got to be there. (TX-00-No Experience-Condition 3)*

I like the fact that lender contact information has an email as well as a phone number, so if I can't get through on the phone, I can always email him. The contact information is very important. (TX-002-No Experience-Condition 3)

I have lots of good information here [in] contacts. (TX-011-Experienced-C3)

They have the contact information right there for all of your contacts. It breaks all of this down. Okay, I like the flow of how [this disclosure] is going. (TX-Lender-002)

This is really giving a bit more detail on one statement as far as your contacts and whatnot...and why not? Why not make it more simplistic? This business is already hard enough. (TX-Lender-006)

Design Findings

Matching Language, Layout, and Location

In this round, as in prior rounds, the importance of strongly matching the language, layout, and location of information was underscored. The more closely we aligned the Loan Estimate and the Settlement Disclosure, the more clearly consumer participants noticed where the two disclosures did not match. They continued to be able to compare fees and costs from the Settlement Disclosure and the Loan Estimate. However, as they did in the prior round, both experienced and inexperienced consumer participants wanted to have the Settlement Disclosure and the Loan Estimate match even more. Several consumer participants suggested that this comparison would be easier if the layout of page 2 of the Settlement Disclosure looked more like that of page 2 of the Loan Estimate.

“ I am looking for a page that looks just like this [page 2 of the Settlement Disclosure], and I do not see one. They are a little different. What would be nice if every page was the same as this, so the front would be exactly the same, because now I do not really know what I am comparing...What I think would be helpful is if these were more identical, so I could make a more identical comparison. (TX-005-No Experience-Condition 2)

At first I didn't [find it easy to compare page 2 of the Settlement Disclosure to the Loan Estimate] because they looked so different. It wasn't until I read right here in the escrow that they both said section G page 2 and I realized that they were actually the same, it was just the way they were formatted differently it was a little harder...once I found section G on this side and section G over here it was better. But because it is broken down into two columns over here and only one paragraph one after the other over here made it a little harder. (TX-006-No Experience-Condition 1)

It would be much more difficult if they didn't match up entirely...As long as I can find each item, loan origination fee...as long as I can find each item and they match then the fact that it's formatted differently is not a problem. Now we could just go through each one of these and see at that point, what changed, is something new up here that I wasn't expecting. (TX-008-Experienced-Condition 2)

It was with a little work [to compare the Loan Estimate to the Settlement Disclosure], so it was moderately difficult. They could be a little more alike. They look alike up front, but really you have to get into them. And it's numbers, so that's OK. But I've dealt with numbers a lot in my life, and it might be harder for some people. (TX-011-Experienced-Condition 3)

Numbering System

Industry participants believed that the numbering system on the Settlement Disclosure would work as well as or better than the current HUD-1 numbers, although they did expect that industry would resist the change. Importantly, they wanted each number to always match a specific line item for ease of reference when talking to consumers and other professionals. So Item X would always refer to, for example the commission, or Item Y would always refer to the title.

“ I like the ABC...I think it actually works well. Because we're used to saying the 700s, the 800s, and that can be a little confusing, and this breaks it down, I think, better for everybody. A-1, B-5 or whatever. So I do like...I think it makes it makes simpler on those terms. (TX-Settlement Agent-003)

I think [these numbers are] easier than Line 611, 610, 609. A1 and A2 is a little easier to follow than 101, 102, 103, especially when you get deeper into the HUD. I'm not opposed to it. But again, I'm thinking I've been using the same form for over 10 years or a very similar version of it, so it may be difficult for the industry to get used to it. (TX-Settlement Agent-004)

I think it's important that [the numbers] stay the same across the board, that they should tie with an item. The number should coincide with whatever the item is. And just like on the HUDs now, they skip a couple of numbers sometimes because of a tax error or whatnot, so you just skip it...and this is probably kind of more for me than the consumer, is because we're the ones that are explaining this every day, and to explain it I think it makes it easier if it's in the same spot every single time. (TX-Settlement Agent-003)

We've got that on HUD now, like 1101 is always the title, 901 is always the interest, is that what you mean?...I wouldn't say we need it to be, but I think we're just used to it. That's what we're familiar with. I know if I need to change the interest, 901, if I'm going to go change my commission, then it's 700, if I'm going to go change my escrows...you just know where you're at because that's what you're familiar with. I don't think they have to be...I think it's a familiarity thing, and that's what we've always done and you just know where to go. (TX-Settlement Agent-005)

I think as long as [the number] coincides with what we got our system initially...If you are talking processors talking back and forth to one another, title companies and attorneys, it needs to be uniform so there is no misunderstanding...I think it is important. (TX-Lender-006)

Conclusion

Round 9 was the fourth round of testing for the Settlement Disclosure. In this testing, consumer participants, both experienced and inexperienced, were put into one of three conditions. Under all conditions and with all levels of experience, consumer participants could use the Settlement Disclosure alone and with the Loan Estimate to locate key loan terms and relevant costs/fees and verify key information that was important to them (usually key loan terms and closing costs). More importantly, the Settlement Disclosure continued to activate consumers, even more than in previous rounds, to question the items that changed from the Loan Estimate. Almost every participant asked why the changes had occurred at the end of page 1.

Industry participants agreed that the layout would be useful to consumers in understanding key loan terms and costs/fees as well as what had changed. Industry participants confirmed that both disclosures worked for their needs, as well as consumers', and thought the disclosures would be relatively easy to implement, but noted a general industry resistance to change.

The loan product for this round of testing was particularly complicated—interest only and 5/3 adjustable rate. In addition, the Settlement Disclosure only escrowed some of the property fees. Consumer participants continued to struggle with identifying what was included or excluded in their escrow payment.

The key finding of this round, as in the previous rounds, was that consumer participants wanted as close a match as possible in language, layout, and location of information between the Loan

Estimate and Settlement Disclosure. As before, the more closely we aligned the two disclosures, the more the consumer participants noticed even slight differences and indicated more ways to align the two disclosures. Changes for the tenth round of testing further reduced differences in language, layout, and location of information. As we made those changes, the word “closing” was used to describe various costs. To provide even more internal consistency, we changed the name of the Settlement Disclosure to Closing Disclosure.

Revisions to Prototypes, Round 9

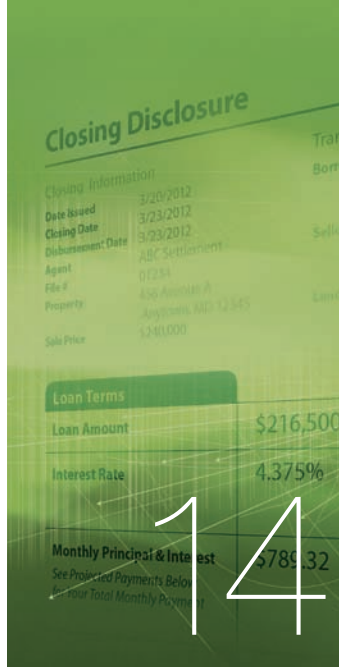
Based on the results of the Round 9 testing, we made the following significant changes to the Loan Estimate and the Settlement Disclosure as documented in the table below.

TABLE 38. Revisions to Loan Estimate Prototype, Round 9

Revision	Reason
Page 1	
In <i>Closing Costs</i> , inserted numbers for both the <i>Loan Costs</i> and the <i>Other Costs</i> : Includes \$9,120 in <i>Closing Costs</i> (\$5,963 in <i>Loan Costs</i> + \$3,157 in <i>Other Costs</i> - \$____ in <i>Lender Credits</i>)	To include a breakdown of the closing cost calculation
Added “interest only” below payment in <i>Payment Calculation</i>	To clarify when a loan is interest only
Page 2	
Changed title of two subcategories of <i>Closing Costs</i> to <i>Loan Costs</i> and <i>Other Costs</i>	To reduce the confusion with the similar-sounding <i>Settlement Fees</i> and <i>Settlement Costs</i> and match the revised <i>Closing Disclosure</i>
Moved <i>Lender Credits</i> from Section D to Section J	To better reflect that lender credits can be applied to any of the closing costs and avoid negative <i>Loan Costs</i>
Changed <i>Cash to Borrower</i> in <i>Calculating Cash to Close</i> to <i>Funds for Borrower</i>	To more accurately reflect how funds can be used at settlement
Page 3	
Changed <i>Appraisal</i> language to: <i>We will order an appraisal to determine the property’s value. You will pay for this appraisal, and we will promptly give you a copy, even if you loan does not close. You can also pay for your own additional appraisal of the property.</i>	To use the language that was more easily understood

TABLE 39. Revisions to Settlement Disclosure Prototype, Round 9

Revision	Reason
Title	
Changed name of disclosure to <i>Closing Disclosure</i>	To increase consistency in terminology on disclosure
Top Information, page 1	
Added Distribution Date	To give complete set of dates for consumers
Projected Payments, page 1	
Added "interest only" below payment in <i>Payment Calculation</i>	To clarify when a loan is interest only
In <i>Closing Costs</i> , inserted numbers for both the <i>Loan Costs</i> and the <i>Other Costs: Includes \$9,120 in Closing Costs (\$5,963 in Loan Costs + \$3,157 in Other Costs - \$___ in Lender Credits)</i>	To include a breakdown of the closing cost calculation
Closing Cost Details, page 2	
Changed title of two sections to <i>Loan Costs</i> and <i>Other Costs</i>	To reduce the confusion with the very similar sounding <i>Settlement Fees</i> and <i>Settlement Costs</i> and match the revised Loan Estimate
Moved <i>Lender Credits</i> from Section D to Section J	To better reflect that lender credits can be applied to any of the closing costs and avoid showing negative <i>Loan Costs</i>
Calculating Cash to Close, page 3	
Changed <i>Cash to Borrower</i> in <i>Calculating Cash to Close</i> to <i>Funds for Borrower</i>	To more accurately reflect how funds can be used at settlement
In <i>Did this change?</i> , bolded the key words in each line	To emphasize the explanation of the change
Summaries of Transactions	
Bolded the subheadings in each lettered section	To emphasize the subheading categories
Page 4	
Deleted <i>Policy</i> from <i>Partial Payment</i> section title	To reduce words on page
Deleted <i>Information</i> from the <i>Escrow Account</i> section title	To reduce words on page
Contact Information Table, page 5	
Added License ID to the two NMLS rows	To allow other types of license numbers to be listed



Usability Testing Round 10 – Baltimore, MD (March 2012)

Introduction

At the end of Round 9 (Texas), testing results indicated that we could improve the disclosure with minor design revisions in three targeted areas: identifying the loan product as an interest only and adjustable rate loan, identifying full and partial escrow, and clarifying the disclosure of *Cash to Close* and *Closing Costs*. Based on the Round 9 testing results, and in consideration of supplemental public feedback from the CFPB's *Know Before You Owe* initiative, we made minor language and layout changes to improve performance in these areas. We wanted to confirm that the changes worked for consumers. Accordingly, we conducted one round of additional testing in Baltimore, Maryland.

In Round 10, to address these areas, we made nearly all changes to page 1 of the Loan Estimate and the Settlement Disclosure:

- To improve identifying the type of loan product, we added the words “interest only” under the payment amount in the first column of *Projected Payments*. We expected that the additional two words would call attention to the interest only payment for the first 5 years of the loan.
- To improve and ease understanding of closing costs; reduce similar, but conflicting language on the disclosure (e.g., closing and settlement); and enhance understanding of the difference between the *Loan Costs* and *Other Costs* categories, we retitled the Settlement Disclosure to Closing Disclosure and retitled the *Closing Cost* subcategories to *Loan Costs* and *Other Costs*.

- To improve the understanding of escrow accounts, we listed property taxes, homeowner’s insurance, and an “Other” category with checkboxes. A second column identified if the estimates were included in escrow with a “yes,” “no,” or “some” for partial escrow. For the Closing Disclosure, we included Windstorm Insurance and HOA fees in the estimated taxes and insurance in the *Other* category with HOA not included in the escrow account.

We tested the same loan used in Round 9 (Texas):

- a 5 year interest only, 5/3 adjustable rate loan.

Research Goals

As in Round 9 (Texas), the overarching goal of the testing remained comprehension and comparison: Could participants understand the loan type, the basic costs of the loan, and compare the changes between the Loan Estimate and Closing Disclosure? For Round 10, we made several minor changes to the Loan Estimate and Closing Disclosure based on our observations in Round 9. To evaluate these changes, our specific research goals were to determine if participants could:

- identify the “interest only” text in *Projected Payments*,
- state the loan product type and what that means,
- identify the partial escrow on page 1 of the Closing Disclosure,
- state the difference between *Cash to Close*, *Closing Costs*, and the components of closing costs,
- identify what changed between the Loan Estimate and Closing Disclosure and why,
- use the *Calculating the Cash to Close* table to see that a portion of their closing costs was financed,
- state what they paid before closing and at closing, and
- state a preference for the way the totals were broken down on page 2

Who We Tested

For Round 10, we conducted six cognitive interviews in Baltimore, Maryland (each lasting 60 minutes):

- six consumer participants and
- no industry participants.

Participants represented a range of demographics, such as age, education, income, and experience with mortgages. As the changes to the design for this round were mainly made to wording to improve consumer comprehension and were unlikely to affect implementation, we did not test industry participants this round. See *Appendix A. Demographic Summary*.

Interview Structure

To diagnose usability, we used highly structured one-on-one interviews. For Round 10 of testing, because of the focused nature of this round, we shortened the interview from 90 minutes to 60 minutes. Participants first received a Loan Estimate, did a think aloud, and then answered a series of comprehension questions based on the overall research questions. Participants then received the Closing Disclosure, did a think aloud, and answered a series of comprehension questions.

Rotations

To ensure that the order of presentation did not influence the results, consumer participants saw designs in a carefully considered rotation or order.

TABLE 40. Disclosure Rotations, Round 10

Participant	Home Buying Process	Loan Estimate	Closing Document	Closing Document
MD2-01	Same	Ficus	Design 2	Design 1
MD2-02	Same	Ficus	Design 1	Design 2
MD2-03	Same	Ficus	Design 2	Design 1
MD2-04	Same	Ficus	Design 1	Design 2
MD2-05	Same	Ficus	Design 2	Design 1
MD2-06	Same	Ficus	Design 1	Design 2

What We Tested—Design

While we kept the content consistent, we used two designs with a slight difference on page 2 in how the three overall totals were presented. Design 1 presented the sum in a box and below was the breakdown of those costs. In Design 2, the breakdown was presented first and then the sum below. We rotated which design participants saw first among the six participants.

What We Tested—Loan Type

We tested one design and the same loan product used in Round 9:

- 5 year interest only, 5/3 adjustable rate loan.

See Table 41. Loan Type, Round 10 for detailed differences.

TABLE 41. Loan Type, Round 10

Name of Loan Originator	Loan Features	Name of Loan Originator	Loan Features
Ficus Bank (Loan Estimate)	30 year 5 Year Interest Only 5/3 ARM with initial rate of 4.375% and maximum rate of 8% in Year 9 Loan Amount of \$211,000 Escrow Cash to Close of \$32,120 Closing Costs of \$9,120	Ficus Bank (Settlement Disclosure)	30 year 5 year Interest Only 5/3 ARM with initial rate of 4.375% and maximum rate of 8% in Year 9 Loan Amount of \$216,500 Partial Escrow excluding HOA fees Cash to Close of \$29,826.23 Closing costs of \$13,533.29 Closing Costs Financed of \$5,500

See Appendix M. Loan Estimate and Closing Disclosures for Round 10 – Baltimore, MD for the disclosures that were tested in Round 10.

Overall Findings

Understanding the Loan Product

Most participants noticed on page 1, usually during the think aloud, that the loan product was a 5 year interest only, 5/3 adjustable rate loan, but they noticed at different points. Some participants were unclear about what “5/3” meant. When asked specifically about the loan product, most participants could state the basic characteristics of an interest only, adjustable rate loan. However, experienced participants better understood the concept of this loan type. They knew they would pay interest only for a period and that the interest rate would eventually adjust. When looking at *Projected Payments*, participants saw the changes in the payment starting in year 6, and most participants identified the cause as related to the interest rate. However, most did not identify from page 1 that they would also begin paying principal at the end of year 5.

“ Oh, it’s a five year interest only. Yes, five year interest only. 5/3 adjustable rate. So what does the 5/3 adjustable rate [mean]?...After three years you could change it? That’s what I would think. Five years, three years adjustable rate. I don’t know. 5/3 adjustable rate. I could guess? (MD2-001-No Experience)

It says it “can go as high”...so can go, doesn’t necessarily mean that it will change. It may not. Up here it said that the loan product is called a 5 year interest only 5/3 adjustable rate. What is 5/3? Is that the way you say it...5/3? Five year interest only 5/3 adjustable rate... after five years it will increase but the rate is adjustable. It will fluctuate. It depends. The adjustable rate will depend and so it is not going to be the same. It will change because it says 5 years is interest only and then after 5 years then it will be something else. It will be adjustable. (MD2-002-No Experience)

Yeah, the product is a 5 year interest only at 5/3 adjustable rate, and it’s a conventional... This is the loan amount, this is the interest rate. It adjusts every three years starting in Year 6, goes as high as 8 percent in Year 9...“it adjust every three years starting Year 6, can go as high as”...I don’t think I’d want whatever this was because I wouldn’t like that they switch up prices. (MD2-004-Experienced)

Adjustable. I am just puzzled by one thing. I understand the 5 year interest only. Then the next 5 is probably the same thing with a 3 year adjustable rate. I think that is what they are saying...You are paying the interest; you are not paying off the loan. (MD2-005-Experienced)

Five year interest only means nothing gets applied to the principal of the building you’re buying. I’m not sure what 5/3 adjustable rate really means, not being in the business. (MD-006-Experienced)

Identifying the “Interest Only” Aspect of the Loan Product

In Round 9, participants had trouble identifying that in years 1-5 they would only pay interest and no principal. As a result, we added “interest only” text to the years 1-5 in *Projected Payments*. While only some participants specifically stated that they saw the new “interest only” text in

Projected Payments, most participants understood the interest only because they saw interest only mentioned in the loan product or in *Loan Terms*. Having the “interest only” text in *Projected Payments* served as an extra reminder to help participants see and understand the loan type. Participants who did not see the text in *Projected Payments* suggested making it bolder.

“ I see that the years 6-30 are the same in principal and interest but it just jumps from 1-5...from 1-5 it is \$769 interest only... Principal and interest on the top line from 1-5 is a lower amount and it looks the same across the board through the rest of the years. Again, I would want to know why the increase from \$769 to \$1233 for all those years. When it says interest only, only from 1-5...so does that mean after year number...I see it now. Up at the top it says adjusts every three years starting at year number 6. I see from 6-8 it added...where it says adjusts...I see the increase here. (MD2-002-No Experience)

Under years 1-5. But that is interest only. (MD2-005-Experienced)

Participants who did not see the “interest only” text had the following comments and suggestions.

“ Make it darker...Yeah, bold it like that, like dark, dark bold. (MD2-004-Experienced)

How you can make this clearer? You could put a rectangle around it...To highlight it a little bit. (MD2-006-Experienced)

Identifying Full and Partial Escrow

Participants were easily able to identify the *Estimated Taxes, Insurance, and Assessments* on the Loan Estimate as well as understand what would be included in escrow. In addition, most participants could identify the *Estimated Taxes, Insurance, and Assessments* on page 1 of the Closing Disclosure. Most participants were also able to identify the “estimated escrow” amount in *Projected Payments*. Participants could state the basic costs that were included in escrow based on page 1 of the Closing Disclosure. With the differences between the escrow included in *Projected Payments* and the larger amount in the *Escrow* section, a few participants identified that the “some” meant that either Windstorm Insurance or HOA were not included. Basic overall understanding of the partial escrow was improved on page 1 as compared to Round 9 (Texas). However, when participants looked at Section G on page 2 for the escrowed property costs (where they were directed by the disclosure), they read all the items listed, not just the items that were being paid into escrow. Few identified that they would be responsible for the HOA fee listed on page 4 and that it was not escrowed. A few participants were activated to ask questions about the meaning of the word “some” (in escrow) on page 1.

“ Property taxes, homeowner’s insurance and wind storm insurance that they didn’t tell me about in the beginning [is included in the Closing Disclosure]...Where it says In Escrow – property taxes, homeowner’s insurance...(MD2-001-No Experience)

What’s covered [in my escrow account] [in Section G] is my homeowner’s insurance.... My homeowner’s insurance is covered. My property taxes and the windstorm insurance. (MD2-002-No Experience)

Homeowners insurance, mortgage insurance, property taxes, windstorm insurance [are included in Escrow on the Closing Disclosure]. (MD2-003-Experienced)

Property taxes, homeowner's insurance. Again comes the word "some". Some other. Insurance, HOA...Property taxes, homeowner's insurance. HOA fee looks like nothing per month. The homeowner's insurance is \$121.67 and the property taxes \$505.08. And windstorm insurance \$72.75. (MD-006-Experienced)

The property taxes and the homeowner's insurance and the windstorm insurance. "Some" – what does "some" mean? And what is being covered by the escrow account? The escrow account, is I should know this...I should know this...escrow, yeah, the insurance, for your insurance, yeah...The property taxes, homeowner's and windstorm insurance. (MD2-004-Experienced)

What is included in the estimate on here? Property tax, homeowners insurance and some other homeowners...windstorm insurance. Some, but not all...So in the \$699.50, what's included in the \$699.50? It is like an extra payment in there. If you look over on this side where it is talking about escrow information here. (MD2-005-Experienced)

Identifying Cash to Close

Participants were asked what amount was needed for *Cash to Close* on both the Loan Estimate and on the Closing Disclosure. Nearly all participants understood that the *Cash to Close* was made up of *Closing Costs* and other costs and that *Closing Costs* consisted of the two subcategories *Loan Costs* and *Other Costs*. Participants could state and locate these costs on page 2. In addition, most made the connection to page 2 where the breakdown of *Loan Costs* and *Other Costs* was detailed.

“ For this particular loan, it [cash to close] would be \$32,120 which includes \$9,120 in closing costs and it gives you a breakdown of what's in closing and what's in other. The \$4,527 is in Loan Costs and plus they have the \$4,593 in Other Costs and if you want to see details you can go to page two to see what the details for the \$4,593 are...Let me see. Includes \$9,120 in closing costs...in addition to including the down payment it is basically saying what else it also includes. (MD2-002-No Experience)

It includes the \$9,000 in closing costs, and the loan cost plus the other costs. I'm just trying to see, yeah, there's down payment. (MD-004-Experienced)

\$32,120. \$9,120 in closing costs which are \$4,527 in Loan Costs plus \$4,593 in Other Costs. Moving to page two. There are other costs. \$4,593 other costs were a summary of line E, line F, line G, line H [and] \$29,000 [down payment]. (MD-005-Experienced)

\$32,120. Total Closing Cost \$9,120, down payment \$29,000, deposit – well, they took off \$5,000. Funds for the Borrower – nothing. Seller credits – I'm not sure what that is but it's \$1,000. It should come to \$32,120. Total Closing Costs are \$9,120. D plus I. (MD-006-Experienced)

Using the Calculating Cash to Close Table

When directed to the *Calculating Cash to Close* table, most participants stated that the table showed differences between the Loan Estimate and the Closing Disclosure or that it was a summary of the money needed to close. When asked to explain what had changed, most participants mentioned “closing costs financed.” However, when asked separately why the loan amount had increased, few used the information about the financed closing costs from the *Calculating Cash to Close* table to state that the additional financed amount was the reason for the loan amount increase.

“They took some – I don’t know. For whatever reason they increased the Loan Disclosure cost. They must have took some out and added it to the Loan Amount, since that’s more than it was. (MD2-001-No Experience)

They gave an estimate. They’re just telling you the estimate of what the Cash to Close is going to be and then what it really is. So these things right here, those Closing Costs are what went up. You see that the Closing Costs went up. And then they took out the \$5,000 that I already paid and some seller credit. That’s why that went down...The amount of the loan has changed...Must be something to do with that \$5,000 – if it does, it’s not clear enough for me to see it. I’ve got to look through and guess. (MD-001-No Experience)

Okay. I am just browsing first before I discuss. It [Calculating Cash to Close] is basically just a breakdown as to how your money was spent from the deposit that you gave for the down payment that you gave. It is giving you a breakdown as to where your money went. (MD-002-No Experience)

Yes. I am looking at the Calculating Cash to Close so that I kind of get a sense as to why this one does look lower than the other one ...they also adjusted the closing costs that was financed. They adjusted it by \$5,500. They did some adjustments to lower the cost. (MD-002-No Experience)

Trying to explain how much money I need to bring and why...It looks like they are financing some of the closing cost, some closing costs were paid before closing, the deposit, so credit stays the same, and there are some adjustments, \$377. I want them to explain why it went down almost \$3,000. (MD-003-Experienced)

Well, it [Calculating Cash to Close] tells you the different figures have changed. Well, first of all, the figures have changed. The figures aren’t exactly the same. The estimate is different from the final figures. These all stay the same, the down payment, the seller credits, that all stayed the same. Now, adjustments and other credits, okay. (MD2-004-Experienced)

Total costs financed was \$5,500 less. The down payment from the borrower was the same \$29,000. The deposit is the same \$5,000. There were not changes in the funds from borrower. The seller credits of \$1,000 remain the same. The adjustments and other credits of \$377...There is \$5,500 less on closing costs financed and \$830 before. The rest of it is pretty much the same. (MD-005-Experienced)

It's telling you how they got that figure for Cash to Close. That's what it's telling you. And it's also trying to show you what has changed from the Loan Estimate to the Closing Disclosure. (MD-006-Experienced)

Design Findings

“Matching” the Design between Loan Estimate and Closing Disclosure

Matching or standardizing the language, layout, and location of information on pages 1 and 2 worked extremely well to activate participants to compare, question, and identify the key changes between the Loan Estimate and Closing Disclosure. Because of the close alignment of the two disclosures in terms of language, layout, and location of information, most participants could better use pages 1 and 2 in order to compare the Loan Estimate to the Closing Disclosure and identify key changes. Key changes included that the loan amount increased, monthly principal and interest increased, total monthly payment increased, mortgage insurance increased, estimated escrow increased, estimated taxes, insurance and assessments increased, *Cash to Close* decreased. However, not all participants, while looking at page 1, noticed that the actual closing costs had increased between the Loan Estimate and Closing Disclosure. Instead, they noticed increases while comparing page 2 and the *Calculating the Cash to Close* table. Participants also noticed the increased number of fees within sections and the increases in the subtotals on the Closing Disclosure. Some participants understood the concept of estimate versus final and thus expected things to change. Other participants had a strong expectation that the fees and costs on the Loan Estimate and Closing Disclosure should be identical.

“ *Everything on page 1 is different. That's the first thing as you look – the Loan Amount, boom. After that it's all downhill. (MD2-001-No Experience)*

Everything on the closing has increased from what I saw on the estimate all the way down. The mortgage insurance increased. The escrow and also the total monthly payment. All across the board it has increased and the taxes and insurance and stuff everything has increased at \$842. However, when you jump down, it says cash to close is \$29,800 instead of the \$32,000. (MD2-002-No Experience)

Well, first of all, the loan amount is \$211,000, so that went up \$5,000. The interest rate stayed the same. The monthly principal went up \$769 to \$789. The estimated 1 to 5 years, that [payment] went up \$200...The estimated insurances went up...The estimated cash to close went down, though. That went down. This is \$32,000 and this is \$29,000, so it went down maybe \$2,000 something. (MD2-004-Experienced)

The interest rate was the same. This is somewhat higher. The principal and interest was higher. I think when you got down here all these were higher than the estimates. They were all higher. This was very much higher. Strangely the cash to close was lower but it included the very high closing costs. (MD2-005-Experienced)

Preference for Breaking Down Overall Sums on page 2

To ensure consistency in the document, we identified changes to how Sections D, I, and J handled subtotals to make them more consistent with the other sections on page 2. We tested to make sure that we would not introduce problems if we elected to use the more consistent design. Design 1 showed the sum in a box and below was the breakdown of those costs. This design was more similar to how totals had been handled in other sections of page 2. In Design 2, the breakdown was shown first and then the sum below. Participants showed no difference in performance between the two designs and either had no preference or showed an even split between the two designs.

“ I like to see the breakdown and then the total versus the total and then the breakdown [in Design 2]. (MD2-002-No Experience)

[I prefer Design 1] because I see the total right away. Rather than trying to figure out what they are saying here and that these two say nothing about that. Here, it tells you right away, I see the total and that seems a little bit more clear. (MD2-003-Experienced)

I don't really see the difference. I probably would rather see the number up here [in Design 1] as opposed to down there. (MD-004-Experienced)

Yeah, I like the total being on the bottom line [in Design 2]. I think that is more consistent with the other ones. (MD2-005-Experienced)

[I prefer Design 1] because it gives you the amount of the thing and then it breaks it down. (MD-006-Experienced)

Conclusion

Overall, both the Loan Estimate and the Closing Disclosure worked extremely well for consumers; they could comprehend the key features of the loan and the costs; they could compare the two disclosures to identify changes between the two; they could compare across similar Loan Estimates and choose the loan that worked best for their personal situations. Consumer participants recognized important elements of the loan, especially when working with more complicated, less familiar loan products, such as the 5 year interest only, 5/3 adjustable rate loan. They confidently compared the Loan Estimate to the Closing Disclosure using the similar designs. Importantly, they were activated to ask questions about the changes between the two. In addition, they could use individual sections of the disclosures to understand key information like what was included in escrow accounts, what the *Cash to Close* comprised, and that the *Closing Costs* were composed of *Loan Costs* and *Other Costs*.

Despite the fact that the disclosure, as a whole, worked well, there were some minor changes to address. In particular, the sections about escrow/taxes and insurance could be further revised to improve performance in understanding the costs that had to be paid into and outside of escrow. The suggested change was to reduce the cross-references for escrow information, direct participants from page 1 to the *Escrow Account* information on page 4, and include a list of escrowed items on page 4.

Revisions to Prototypes, Round 10

Based on the results of the tenth round of testing, we made additional changes to the disclosure. The table below summarizes the substantive changes.

TABLE 42. Revisions to Loan Estimate Prototype, Round 10

Revision	Reason
Page 1	
In <i>Monthly Principal & Interest</i> , changed the order of the bulleted text to “Includes only interest and no principal until year 6”	To emphasize that the loan is interest only and to structure the phrase to sound more like plain language
In <i>Projected Payments</i> , changed to “only interest” below the principal & interest amount. Also put the phrase in bold and italic	To emphasize further when a loan is interest only and to structure the phrase to sound more like plain language
In <i>Estimated Cash to Close</i> in the explanation of what constitutes <i>Closing Costs</i> , inserted “-\$0 in Lender Credits”	To include the additional amount that could affect the amount of the <i>Closing Costs</i>
Adjustable Payment (AP) Table	
In <i>Adjustable Payment (AP) Table</i> , added a row for <i>Seasonal Payments</i>	To accommodate another possible type of change to the payment that is not based on an interest rate change

TABLE 43. Revisions to Closing Disclosure Prototype, Round 10

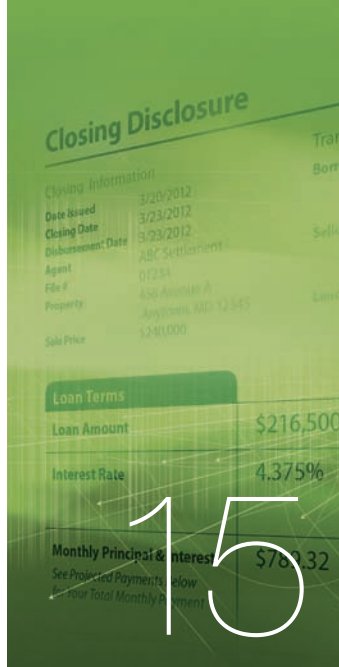
Revision	Reason
Page 1	
In <i>Monthly Principal & Interest</i> , changed the order of the bulleted text to “Includes only interest and no principal until year 6”	To emphasize that the loan is interest only and to structure the phrase to sound more like plain language
In <i>Projected Payments</i> , changed to “only interest” below the principal & interest amount. Also put the phrase in bold and italic.	To emphasize further when a loan is interest only and to structure the phrase to sound more like plain language
In <i>Estimated Cash to Close</i> in the explanation of what constitutes <i>Closing Costs</i> , inserted “-\$0 in Lender Credits”	To include the additional amount that could affect the amount of the <i>Closing Costs</i>
Adjustable Payment (AP) Table	
In <i>Adjustable Payment (AP) table</i> , added a row for <i>Seasonal Payments</i>	To accommodate another possible type of change to the payment that is not based on an interest rate change
Calculating Cash to Close, page 3	

Revision	Reason
To <i>Closing Costs Financed</i> , added the parenthetical (<i>Included in Loan Amount</i>)	To put this information where consumers are more likely to see it and to emphasize the effect on the <i>Loan Amount</i>
Page 4	
In <i>Negative Amortization</i> , changed the text for the second checkbox, to say "may have monthly payments..."	To improve accuracy and consumer comprehensions, simplify, and use plain language
In <i>Escrow Account</i> , edited and rearranged text for first bullet	To improve accuracy and consumer comprehensions, simplify, and use plain language
Edited and rearranged text within the <i>Escrow</i> table	To improve accuracy and consumer comprehensions, simplify, and use plain language
Edited and rearranged text within the <i>No Escrow</i> table	To improve accuracy and consumer comprehensions, simplify, and use plain language
Page 5	
Edited text in <i>Total of Payments</i>	To improve accuracy and consumer comprehensions, simplify, and use plain language
Edited text in <i>Appraisal</i>	To improve accuracy and consumer comprehensions, simplify, and use plain language
Edited text in <i>Contract Details</i>	To improve accuracy and consumer comprehensions, simplify, and use plain language

SECTION 4. CONCLUSION

Over the ten rounds of qualitative testing, the Mortgage Disclosure Project team developed two disclosures: the Loan Estimate and the Closing Disclosure. In this section, we discuss the eight key findings of the testing in four groups:

1. Trade-offs and Comparisons
2. Affordability
3. Activation through Design
4. Comparison Measures



Conclusion

Introduction

Throughout the 10 rounds of testing, the disclosures evolved based on qualitative testing, which was supplemented by the feedback received through the CFPB's "Know Before You Owe" website, consultations with other regulators, consumer advocates, and industry representatives, and the CFPB's Small Business Review Panel as well as the Mortgage Disclosure Project Team's subject matter expertise with mortgage loans and information design. This report focuses on the role of qualitative testing in the development of the forms. Other input is discussed in the CFPB's proposed rule and the Small Business Review Panel Report.

Changes were made to the disclosures during testing to address prevailing patterns of problems observed across participants, whether confusion, misinterpretations, or failure to see key pieces of information. Changes to the design were supported by performance data over preference data and empirical evidence that could show a usability difference in comprehension, comparison, and choice. While the formative qualitative testing examined individual design and content elements, the Mortgage Disclosure Project Team focused primarily on the design and content as a whole and examined participants' ability to synthesize information as they used the entire disclosure to achieve defined performance objectives. In this testing, we had four overarching performance objectives:

- Could participants use the Loan Estimate to identify key terms and affordability issues for a single loan and understand the transaction?

- Could participants use the Loan Estimate to compare two or more loans and make trade-offs to choose the best loan for them?
- Could participants use the Closing Disclosure alone to identify key terms, affordability issues, and changes?
- Could participants use the Loan Estimate and the Closing Disclosure together to identify changes between the Loan Estimate and the Closing Disclosure?

In this chapter, we have compiled eight key findings that were linked to these overarching objectives, and we have divided these findings into four sections:

- 1. Trade-offs and Comparisons:** Findings 1 and 2 discuss how participants identified the basic elements of the loan and used this information in the Loan Estimate to make sophisticated trade-offs and in the Closing Disclosure to identify differences between the Loan Estimate and the Closing Disclosure.
- 2. Affordability:** Findings 3 and 4 shows how participants interacted with the elements on the Loan Estimate to discern key affordability information.
- 3. Activation through Design:** Findings 5, 6, and 7 discuss how design decisions related to the itemization of *Closing Costs Details* activated participants to ask more questions and to compare the Loan Estimate and Closing Disclosure.
- 4. Comparison Measures:** Finding 8 discusses how participants used four comparison measures—two new Dodd-Frank Act disclosure requirements (the *Total Interest Percentage* and the *Cost of Funds*), a modification of an existing TILA disclosure (*In 5 Years*), and TILA's *Annual Percentage Rate*.

Trade-offs and Comparisons

Choosing a loan is a complicated process that has no straightforward algorithm for a right or wrong decision. For example, although an adjustable interest rate may seem a negative factor in a loan, an introductory interest rate (which many adjustable rate loans offer) provides a lower initial monthly payment. This lower initial rate may be advantageous to consumers who are confident that their income will increase (such as a student in the final year of education who has accepted an offer of post-graduation employment) or who will sell the house and pay off the mortgage before the interest rate begins to adjust. To make an informed decision, consumers must have the ability to see and understand different loan terms and costs, consider their personal circumstances, weigh the trade-offs, make a decision that balances all of these factors, and be able to articulate the logic behind that decision. The evolution of the Loan Estimate design worked towards helping consumers make these informed choices.

Closing on a loan is equally complicated. Consumers face stacks of fine-print documents that need to be read and signed. For most consumers, this task may be overwhelming—not merely reading and signing the documents, but the surrounding stress of meeting loan requirements, gathering documentation, waiting, and the many unknowns prior to closing. As a result, they may sign loan documents without recognizing changes in the terms and costs. No single document will change the behavior of all people. However, one goal of the Closing Disclosure was to enable consumers to easily compare the details of the Loan Estimate with the Closing Disclosure, so they could identify the differences, the reasons behind those differences, and the questions they need to ask.

Key Finding 1: Participants used the Loan Estimate to make sophisticated trade-offs among closing costs, interest rate, and payments based on personal situations

Consumers generally looked at three factors when making trade-offs: rates, payments, and closing costs. They made trade-offs within categories (e.g., lower initial rate with higher cap versus higher initial rate with lower cap, bi-weekly payments versus monthly payments) as well as trade-offs across categories (e.g., higher rate and payments with lower closing costs versus lower rate and payments with higher closing costs).

Because, in real life, consumers must make trade-offs when selecting a loan, the loans used in testing often contained multiple, subtle variations to ensure that participants would have to make multi-factored trade-offs. For example, in the first round of testing, some participants received two adjustable rate loans. One had a higher initial interest rate but a maximum rate of 10%; the other loan had a lower initial interest rate, but a maximum rate of 12%.

We were also particularly interested in how consumers would make trade-offs between the interest rate and closing costs. In a later round, participants compared two adjustable rate loans with different closing costs. One loan had a 2.75% interest rate that adjusted every year after Year 5 with \$11,448 in closing costs; the other loan had a 3.5% initial interest rate that adjusted every year after Year 5 with \$3,254 in closing costs. In subsequent rounds of testing, we used combinations of interest only loans; various adjustable rate loans; balloon payments; bi-weekly

payment loans; loans with escrow accounts, partial escrow accounts, and no escrow accounts; different closing costs; and different amounts of cash to close. Significantly, as discussed below, participants were able to make sophisticated trade-offs between the interest rate and monthly payments and the cash needed to close based on their personal situations.

Findings

Throughout the testing, we observed participants using the prototype Loan Estimates to make sophisticated trade-offs with the various loan products. They considered both the larger context of, for example, the economy as well as their own personal financial limitations as they weighed the advantages and disadvantages of the loan products.

Context

Participants were aware of the current state of the economy, the uncertainty of the short-term future economy, their own opportunities for increased pay and job stability, and their own experience or knowledge of others who had encountered difficulties with mortgages.

“*The first thing I look at is the interest – that it is not very high. If I buy a house I look at a house at my possibilities of being able to pay for it, to avoid seizure or loss...The monthly payment, if I earn \$35,000, the monthly payment is too high for me. \$1,203 dollars...Now it says the features of the loan can cause higher or additional expenses. Higher, I wouldn't be able to because my yearly income is \$35,000. So, how I am going to pay an amount of \$1,000+ per month if I have to pay the utilities, water, and other repair expenses that appear as surprises? (MD-Spanish-011)*

The thing with the economy right now is you never know. What if something happens to you within the six years and you can't pay this payment? Then you are stuck and you can't afford it. You may have to let the house go. It is risky. It is something that, of course, everybody wants to start at a low payment and then after this six years it goes high. What if you lose your job? What if you are not healthy? Anything can happen from one day to the next as we all know. It is what is happening right now. So definitely it is risky. (CA-006)

At the end, it's very risky because tomorrow you don't know how the economy is going to be, and I've seen from my own experience, a lot of people have lost their homes because they had more or less uncomfortable payments. But, if the husband or wife loses their job, they cannot make the payment, and they may want to refinance, but they can't qualify. I think it's very sad. This is very risky. I wouldn't take it. (CA-Spanish-011)

Personal Limitations

Participants were also aware of what they could afford and their own ability to pay the mortgage. As a result, many wanted to have predictability in the loan. When given any type of adjustable rate loan or a fixed rate loan with adjustable payments, most participants stated a preference for a fixed rate or fixed payment loan—even if one was not presented in the testing situation.

“*The biggest deciding factor for me is what are my payments going to be overall and long term? We can get into the house but can we stay in it? Which one is going to allow us the*

opportunity to stay in it, so far neither one of them? So projected payments and closing costs, projected payments are always the biggest thing. (MD-005)

Can go as high as 8% in year 7 which may be why I'm seeing the variability and the change. One of the things that comes to my mind is if I'm going to be staying in that place in seven years. If I plan on staying at the place permanently I'd be more concerned about the longer range payments or I'd be thinking to myself, "Get out of there by year 7." (IL-004)

What would I do next? Well, I would start asking questions...And then I would be thinking about my career and the future. That payment could be that high in Year 9 and I'd be thinking as far as if am I staying at this job, what my income would be at that time? Would I be able to afford that payment if it does happen? What the economy is like right now, the direction we're heading, our president we have at the time – I'll be thinking about all those things. (IA-001)

I do like how we could see this broken down years one through five, six through eight, nine through eleven, twelve through...during the housing disaster, I bet people were surprised to see these numbers go up in future years, which I was personally surprised by, just by looking at this. In my head, that is an adjustable, and in my head it is as you pay off, your amount would stay the same, or potentially go down as you keep paying off. That was a little surprise. I do like how that is telling me, year after year, what is happening...I think probably if they were only seeing 4.375% and nothing else, I think they might be misled. I think seeing what you are going to be paying month-to-month will be very helpful. It would help me. (TX-005-No Experience–Condition 2)

Trade-offs across cash to close, interest rate, and monthly payments

Many participants were acutely aware of the trade-offs across the cash needed to close, the interest rate, and the monthly loan payment. When they chose the higher interest rate, they understood it would result in a higher monthly payment. They made this choice, however, because they knew they did not have access to the cash needed to close on a loan with a lower rate and payment.

Conversely, other participants were willing to pay the higher closing costs in order to lower the monthly payment. Even with increasingly complicated decisions, participants continued to be able to use the disclosures to make sophisticated trade-offs and gave rational and personal explanations of their choices.

“It was only 10 percent down...because I could then preserve as much of my money as possible. But at the same time I would still take that with a bit of caution, because that's a good thing now, but maybe, obviously over the 30 year period, that's 10 percent more or roughly \$31,500 that I'm financing and maybe if I do have the funds, I should be putting more down. (CA-005)

Automatically, I'm leaning toward Ficus because of the lower monthly loan payment and a lower cost. You have maybe more closing cost, [but] the interest rate would translate into lower payments at the end. (IL-001)

So the bottom line is you have to make this decision on...the amount of money it will cost you to take a loan out: Are you in a position where you want to pay more money, \$5,500 up front [Pecan] or the \$633 [Poplar] and you're going to sacrifice a little bit on interest rate. (MA-006)

Key Finding 2: Participants used the Loan Estimate and Closing Disclosure to identify differences between the estimated and the final numbers

The primary goal of the design of the Closing Disclosure was to ensure that participants could identify differences in the loan terms and costs between the Loan Estimate and the Closing Disclosure. In testing, we wanted to ensure that participants could easily compare the Loan Estimate and the Closing Disclosure, could quickly identify differences, and were activated to ask questions.

Findings

In Rounds 7 (Alabama), 8 (Pennsylvania), 9 (Texas), and 10 (Maryland 2), the similarity of design and language on the Loan Estimate and the Closing Disclosure enabled participants to clearly identify items that had changed. Further, they questioned the item changes. As we changed the design of the Closing Disclosure to make it more similar to the Loan Estimate, participants identified changes more easily and quickly. (See Key Findings 3, 4, 5, 6, and 7.)

Easily saw the differences

Both experienced and inexperienced participants immediately noticed the similarities between the first pages of the Loan Estimate and the Closing Disclosure and could use these to quickly identify aspects that changed. Some participants concluded that the changes were enough that they would not proceed with closing.

“*The very first thing I see is the \$5,000 difference right here [in loan amount]. And then the principal interest [payment] is \$24 more. And the principal interest, of course, that's the same amount, like \$548, and that is \$24, which is more. The mortgage insurance has gone up and the escrow amount is also higher. So instead of paying \$857, I'm already paying \$150 more. So the amounts are really not matching. That's the first thing I would see. And here I was asked to get \$25,000 and here it's showing up as \$27,000. (PA-009-Experienced)*

...And my estimated escrow is different. So it's saying partial escrow, which I don't believe the other one was partial. And also the total's different at the end, the estimated cash to close. And the closing costs are different. (PA-007-Experienced)

It changed. It was \$211,000 and now it's \$216,000. It went up. The monthly principal and interest is up by about \$20. Payment after year one also changed. The escrow changed, mortgage insurance changed. Basically everything changed. And the closing costs went down. (TX-001-No Experience-Condition 3)

Well, right off the bat, I'm seeing that the underwriting fee is different, so for some reason it's more than double over here. There's a lot of different things. The processing fee is different. The verification fee is different so it seems like maybe...well that's a rate lock fee, and the verification fee is a lot less. (PA-007-Experienced)

The Loan Amount is different. Oh, it's different now. And I only thought I needed \$29,000. I'm not signing this – I can tell you right now. Because it's none of the stuff that I asked for...Because I'm thinking when I get this [Closing Disclosure] isn't all this supposed to be the same thing [as the Loan Estimate]?... I'm thinking all this is the same, but the costs look different. It is different. I don't care if it's cheaper or not. It's different and why? I thought this [Loan Estimate] is what I was going to get. (MD2-001)

Now I feel like all these extra fees and payments are being added at the last minute, I have a lot of questions about that. Before I put my signature on it, I need to know. This is not what we agreed to, and I am having a little bit of a second thought here, because this is not what we agreed to. (PA-004-No Experience)

I would look back [to] like whoever I got from the papers from and see if they can make some kind of corrections because this is two different numbers here, We have to get on the same page before we get on another page. You understand? So, number one, before you really go any further, we have to discuss how they're going to straighten this out first. (PA-006-No Experience)

I'd have a lot of questions, a lot of questions on it and before I'd do anything next even if it means not getting the house, I'd have to actually get the answers I need on this. (TX-001-No Experience)

Activated to ask “Why?”

By the time participants finished reviewing page 1, they often independently raised the question: why had the terms or costs of the loan changed? All participants stated that their next step would be to identify what changed and why.

“ I'd have a lot of questions, a lot of questions on it and before I'd do anything next, even if means not getting the house, I'd have to actually get the answers I need on this. Why this went up, why that went up and why all these prices have gone up since the last time we talked. It could have been a week ago that we talked and all of a sudden everything has changed by thousands of dollars. And why did it change by thousands of dollars?... How come all of a sudden now I'm paying more for insurance, more for the escrow?... the estimate shouldn't have been that much off. If you've been doing this a long time you know it shouldn't be that much off. (TX-001-No Experience-Condition 3)

I'd actually talk to my broker or talk to my own attorney and let them look at that. Because there were some things in there I didn't understand. I'd have actual discussions with the mortgage broker – hey, I don't understand why this is \$32,000? What is this for and where does it come from? Is the percentage going to go up? Is everything going to change

through the other place or do they buy the contract as is and they have to maintain it that way without changing anything according to percentages and everything else? (TX-001-No Experience–Condition 3)

Initially if I were to receive this the day of closing I would have a big concern about the amount contributed to the escrow account and the closing costs – that’s a very big difference...please explain what has happened between the time of the Loan Estimate [and this] Disclosure was received. (AL-003-Experienced)

Why did the estimated taxes go so much higher? Because you’re looking at more than \$100 here, and it’s made my payment jump about \$120. And I would ask him to go back over the closing costs versus this because there’s a bunch of fees that have been charged that I was not charged in the estimate. (AL-006-No Experience)

Affordability

Affordability refers to the ability of borrowers to not merely purchase a house, but to remain in their home by making regular payments that fit within their budget. Loans with payments that can change over time can dramatically affect long-term affordability for borrowers. We wanted to ensure that consumers could equally understand the variability over time in the payment because of changes in the interest rate in adjustable rate loans, changes in the repayment terms in interest only and negative amortization loans, and changes in mortgage insurance, homeowner’s insurance, and taxes.

Key Finding 3: Participants could use the Loan Estimate to assess affordability issues, especially how payments can have a range of costs

Participants were acutely aware of affordability issues, which were one aspect of their trade-off calculus. Participants used the *Loan Terms* and the *Projected Payments* sections to identify two affordability costs—the total monthly payment and changes in payments over time.

Findings

In *Loan Terms*, bulleted items indicated if aspects of the interest rate, the loan amount, or the monthly payment could change. The *Projected Payments* section was designed to help participants see how different elements of the payment (principal, interest, taxes, and insurance) can change over time. Some participants also used the *Adjustable Interest Rate* table on page 2 of the Loan Estimate to identify the range and timing of interest rate changes.

Payment changes over time

Participants could use the Loan Estimate to identify changes in the interest rates and payments due to the type of loan, and, in later sessions, to identify the inclusion of mandatory mortgage insurance or an escrow for taxes and homeowner's insurance.

“ From there, I don't have much mathematical knowledge but if here it is saying that your monthly payment is this [in Loan Terms] and I go to the scale at the bottom where [it] says the projected payments, as to say future payments, that I can have. They are telling me that from one year to two years is going to be this, and from the third to the eighth is going to be this and at the final years is going to be this. So, I think that is increasing and increasing. (MD-Spanish -008)

Once again, with the projected payment section, I do notice that because of the interest rate and the variable factors that go into it, I notice that the potential of monthly payment amounts can go up rather sharply...In the worst case scenario and for the majority of the loan, years 7 through 30 I see it could go up to \$3,212, almost \$500 more. (CA-003)

They kind of give you a basis of what you're getting as far as your loan is concerned. How much of financing and what your interest rates are going to be, what your payments are going to be. The biggest thing you are concerned about is what your payment is. It is important to know if tax is included, and what's that total cost going be? What you need to bring at closing time when you go to closing on your loan. (MA-003)

Looking at just Year 6, Beech Bank shows that the minimum principal and interest payment that you make is \$802, so that's the very lowest that your payment will be for Year 6. And the maximum that you can pay is \$854. So to me that goes back to this adjustable interest rate table here, that your minimum is 4.5% and your maximum is 9%. (NM-004)

The amount to be borrowed is the same. The interest rate is less but it can go up to 8% which is better than the other. Monthly loan payment is less for starters. \$33,000 at closing. The payment is less but it is almost the same in year 6 just a little less on year 7, but then it goes up considerably still. Wow, \$800 a month...wow, it's a lot. (CA-Spanish-011)

Predictability

Participants often expressed a preference for payment predictability. In general, they talked about predictability in terms of a fixed rate loan, but some, in choosing between two adjustable rate loans, chose the adjustable rate loan with the longer initial payment period (e.g., a five-year initial payment over a three-year initial payment). They used the Loan Estimate to find elements of unpredictability and to compare the levels of predictability in the loans presented to them.

“ I can see that it can increase up to 8% in seven year, and how much more it could possibly increase. I personally would like it better if it was fixed. Because that way I can look at my budget, since I don't know in 2 or 3 years what my income will look like. Therefore, if I have something that is fixed, I can say that I have this much and I can put so much aside. (CA-Spanish-008)

I myself would not [be interested in this loan]...I don't like the adjustable. I would rather know that my payments are going to be a certain amount. The fact that it could range anywhere between \$2,100 to \$2,400, I would rather know...It's very clear to me that the payment will change. (TX-006-No Experience-Condition 1)

Personally, no [I would not choose the ARM], because it is a gamble. I do not want my payments to fluctuate from \$1,653 all the way up to \$2,446. I want to have my budget set for every month. I do not want to have to know it is fluctuate. I do not want it to fluctuate wildly when I might not have that cash to pay that in a month. (TX-005-No Experience-Condition 2)

If I had to choose between the two, I would probably choose Laurel and for the simple fact that I'm locked in a variable rate at 3.75% for 7 years as opposed to Lilac because it's only for 3 years. Their maximum [Laurel] as far as going up, is no more than \$884 in accordance to this year. Their maximum [Lilac] is going up to \$903 in the years 10-30. I'd figure if I lock in here at least for the first 7 years, I'm paying \$647 a year. If something else came along within that first 7 years, I would always go back and refinance for something that's fixed and get a better rate. (MA-003)

Questions raised

The disclosure helped participants understand the basic terms of the loan, but, more than that, it served to educate them and activate them to ask relevant questions. For example, the *Projected Payments* section helped participants see that payments *would* change. Even if they did not fully understand why payments changed, they understood that payments would change, and that they either did not want the loan for that reason or needed more information before deciding whether to proceed with the loan. When participants had two disclosures to compare, they raised even more questions because they easily saw differences between the two loans and could identify features they considered risky.

“ *I'd call this bank and tell them [that] Ficus is giving me a better deal, can you match it? If not, I'd keep with this bank. I sure wouldn't want a 5 year, interest only, fixed rate. I want a permanent fixed rate so that way my interest rate doesn't go up. I'd do that and if they couldn't do it, I don't think I would mess with them. (NM-002)*

[Fir] starts off lower and then accumulates, I guess, based on interest. Actually it's not based on interest. So I would just ask questions why is it that it goes up here in Year 6? What about it makes it increase to \$855? (NM-003)

I probably would ask one question that would be: do you have any loans that don't do this [adjusting payment]? I'm not interested in the payment getting bigger later. If I want the payment to get bigger, I'll just pay more and pay it off faster. That would probably be my first question and depending on how he answered that, I'd probably be done doing business with him. (NM-006)

Key Finding 4: Participants used the Loan Estimate and the Closing Disclosure to identify their total monthly costs and to identify if these costs were included in their total monthly payment

Another aspect of affordability is the total monthly cost of the transaction. As discussed in *Key Finding 1*, participants could easily identify the components of the loan payment, including principal, interest, and mortgage insurance. However, to fully assess affordability, the total monthly costs have to include estimated taxes, insurance, and assessments. Because not all lenders include these costs in their monthly payment quotes, this variation has the potential to mislead consumer choices during the shopping phase if the consumer is comparing between lenders with different practices in estimating monthly costs.

To address this issue, the design highlights the principal and interest payment in the *Loan Terms* section to enable consumers to compare the same basic payment between loans. It also clearly directs consumers to the total monthly payment which can include estimates for escrowed property costs and mortgage insurance in *Projected Payments*, so they can assess overall affordability. As the design evolved, participants could better understand the difference between these two payment amounts, identify the amount of taxes, insurance, and assessments in *Projected Payments*, and, by the final round of testing, identify whether all, some, or none of these costs were included in their total monthly payment as an escrow payment.

Findings

As the design evolved, participants more easily recognized the amount of taxes and insurance and knew what they had to pay. In general, participants recognized when taxes and insurance were and were not included in the total monthly payment, based on whether the loan had an escrow account.

Included or not included

Participants recognized that the total monthly payment included *Taxes, Insurance, & Assessments* and focused on the total monthly payment for affordability. If they assumed these costs were included in the payment when they looked at *Loan Terms*, they could self-correct with the information in *Projected Payments*. They could discern when taxes and insurance were included in the payments and recognize that a payment would appear lower if taxes and insurance were not included in the total monthly payment as an escrowed amount. Even inexperienced participants were able to see whether the loan had escrowed taxes and insurance.

“ I was assuming that the tax and insurance were rolled into this figure—the top number [in *Loan Terms*], and I am incorrect. So here Years 1-9 [in *Projected Payments*] the total is \$1,647 a month... (MD-005)

No escrow, so you must pay your taxes and insurance separately. It is telling you that you are paying it separately which is something I would not do. I am not coming up with nine hundred dollars every six months. It is not happening. (IA-005)

Years 1 – 15, it [the payment] is simply stated: \$934.24. That is something I could swing. Plus taxes is simply stated here, very nice—to cover your insurance and property taxes, which is great. (MA-001)

I think it's pretty understandable I think that you would add the \$232 a month [the estimated taxes and insurance] to any one of the years one through three, four through six, seven through nine and 10 up to the 30 year mortgage...It could be as little as \$640 plus the insurance, \$232, or as much as \$884 plus \$232, provided that that rate stayed as a constant rate. (MA-006)

For the mortgage company, it [the payment] would be for the \$474.55, but the taxes and insurance, it's saying I have to pay it separately, so those would have to go to separate...So, I wouldn't pay to them, I would actually pay it to my insurance company or my taxes would be paid to the city. (MA-002)

This one [Beech] includes taxes and insurance. This one [Balsam] doesn't. You have to pay all your taxes and insurance separately which can come all at one time. (NM-002)

My homeowner's insurance is covered. My property taxes and the windstorm insurance. (MD2-002)

Presence of escrow a reason for choosing a loan

Because the absence of escrow was readily identified, participants often said they would ask to have it included as an affordability factor and as a convenience. Other participants simply selected the loan with escrow because it was something they valued.

“Honestly, I would ask them why escrow costs are not figured in and is there a way to possibly include escrow fees, homeowner's insurance, and property taxes. And if there are, then what will it look like? (MA-001)

Also, comparing the escrow, it says on the first one it includes it in the payments. And on the second one, it says no, you have to cover the taxes and insurance on your own. Seeing this—the first one is better because in my case, and I'm just talking about my family, it is more convenient for us that the taxes are included in the payments and you don't have to save it on your own. (CA-Spanish-012)

I actually would prefer this one here [Laurel] because it is lower interest rate...Plus you have your taxes and insurance included in there too so you don't have to worry about paying taxes separately. So I like that. (CA-006)

Now jumping over to Balsam Bank, even though the payment up top is higher versus the payment up top for Beech Bank, the estimated total monthly is less for Balsam versus Beech...Okay, I am seeing why, because here for Balsam, they are not deducting any escrow. So in this case you are paying your own escrow, so that's why the payment is different there. And I am seeing the same kind of thing is the reason why the payment is lower and it adjusts at a lower amount because they are not withholding any escrow for you on that one. (NM-004)

Yes, Balsam is lower. [For] Balsam, it says that you pay your taxes and insurance separately. So...this one seems cheaper but it's not covering as much of the expense. (NM-003)

Industry Opinion

In early sessions, industry participants wanted the monthly payment to include a clear breakdown of the taxes and insurance *and* to have a total monthly payment (with taxes and insurance added in). In later testing sessions, they rarely mentioned the fact that the total monthly payment was present.



Taxes and insurance are two important items because those are the two things that regardless of whether it's a fixed rate or an adjustable rate, the taxes and the insurance are the two things that can also change, so it's important to show them each item broken down that can change for them. (MD-Lender-001)

On the left side I noticed that the escrow account is stating that it is a requirement that the individual pays their taxes and insurance themselves, because the idea is the payments are not being impounded. Therefore, it's incumbent upon them at the time that the property taxes are due, the insurance is due, that they pay that on a timely basis. That's a requirement that the lender has...Here it's clearly stated, and I think that's very important. It's stating it in very clear language and there's no ambiguity about it, or it can't be stated that sometimes the information can't be found in the Truth in Lending statement. (CA-Broker-002)

I think I have seen some pretty good forms in my lifetime. It is the best mortgage-related form I have ever seen. As far as forms go I mean...as far as completeness of any type of form...it is probably the best. It would be all encompassing in what we're trying to accomplish with the borrowers. It's good. (TX-Lender-006)

Activation through Design

The proposed design enabled consumers to identify basic information, loan terms, and costs. Significantly, the design for the Loan Estimate further activated participants – to move them to ask questions and to be able to act on their own behalf.

As we worked on the designs for the Closing Disclosure, we considered two key concepts about consumers. First, individuals intuitively, if not necessarily consciously, look for patterns in a document, and individuals learn from their previous experiences. So if they see similarities in patterns in two documents, they expect other aspects to also have similar patterns. The more complicated the text, the more strongly individuals will want to see similar patterns to ease the cognitive burden. Second, as individuals read, the text raises questions for them, and they continue reading text to find answers to these questions. One other issue that drove our design was the fact that lower literacy participants often rely heavily upon pattern matching to locate information, and we observed these participants struggling when the language, layout, and location of information on the two disclosures did not have the same patterns. For these reasons, in later rounds of the testing, we matched language, layout, and location of information in the Closing Disclosure to that of the Loan Estimate as much as possible in order to activate participants.

Key Finding 5: In the Loan Estimate, participants were activated to identify costs that they could shop for and to negotiate other costs

Closing costs generally fall into three categories: fees that the lender charges (the lender's own fees and fees charged by providers the lender selects), services that the lender requires (fees charged by providers the borrower may select), and costs that are outside of the lender's or the borrower's control (such as taxes and government fees). Borrowers can choose to shop for some specified services or can use the vendors the lender suggests. Borrowers can also attempt to negotiate the fees that the lender charges, such as the origination fee.

Findings

The proposed design of the Loan Estimate overtly addressed one type of cost by including a specific category of closing costs titled *Services You Can Shop For*. Participants easily identified this section and then acted upon it to say that they would shop or would question the costs associated with some fees.

Identification of Services You Can Shop For

Many participants recognized their ability to shop after seeing the category *Services You Can Shop For*. In addition, many participants understood from experience that they could shop for homeowner's insurance.

“ [Closing costs include] Fees for mandatory services that you cannot purchase, mandatory services that you can purchase and hire, and if you choose another provider, these amounts can change, also non-mandatory services, you choose to hire these services, charges that you make in advance at closing, so all these options...from all the information, from A to I. (MD-Spanish-010)

It gives you a breakdown of what you can shop for which is more self-explanatory. You can see this right there...They are saying yeah you can shop for these. (CA-006)

Oh, it says services that you can shop for...so you can negotiate your services. It's very good. It's very well detailed—because it explains that it can be negotiated...you don't necessarily have to go with the services that are shown here. They can go lower. So it's to our advantage as the consumer, as the purchaser. (CA-Spanish-011)

[To lower closing costs] You'd go to the little box that says services you can shop for. So to me that would mean like you can compare different prices, rates. So title, service fees, lender, type of policy...attorneys. (MA-004)

Activation to shop

Participants not only identified the services that could be shopped for, but they were activated to state that they would shop. Participants said that they would shop for some of these services and would question some of the services in the other categories that were not marked as services for which the consumer could shop.

“*Services that you cannot shop for versus services that you can shop for—I have never seen that before...Now as far as (c), that says services you can shop for. And so those to me would be considered negotiable or ones that you could shop around for and bring in your own groups for survey, pest inspection, and that type of thing. (NM-004)*

I would just go to the services and ask if I really need to pay \$125 for an inspection fee or is that optional or can I find someone cheaper who does that. Same with any of those things, title examination and all that...I would say, are these concrete? Is it based on the terms of the loan that I have to go through you for these things? Or can I work it out myself? (NM-003)

...you can see what you are actually paying for and then maybe some of those items could be negotiated in the originating charges. (IL-006)

Right here, [in section A] you can think about whether they can waive some of those fees... (IL-001)

Key Finding 6: Participants used Closing Cost Details to identify differences more easily between the Loan Estimate and Closing Disclosure when the language, layout, and location of information matched as closely as possible

In Round 6 (Iowa), our initial design of the *Closing Cost Details* used an organization and design similar to the current HUD-1, including three- and four-digit line numbers. However, with this design, participants were overwhelmed by the details and the very quantity of numbers. In Round 7 (Alabama), we introduced an alternative design, structured like the *Closing Cost Details* of the Loan Estimate without line numbers, and tested it with the modified Round 6 design of the Loan Estimate. Based on the results of testing, we used the design similar to the Loan Estimate for Rounds 8 (Pennsylvania), 9 (Texas), and 10 (Maryland 2).

Findings

The design match on page 2 between the Loan Estimate and the Closing Disclosure allowed participants to identify differences more easily than when they used the Closing Disclosure design similar to the current HUD-1. With the design that more closely matched the Loan Estimate, participants could more easily find the changes that had increased costs, identify specific fees and who paid them, notice that fees had shifted from items they could shop for to items the lender selected, and identify that new fees had been added.

Once we had matched the basic design of the *Closing Cost Details*, participants could locate information, but sometimes were confused by differences in language or the location of information between the Loan Estimate and Closing Disclosure. As a result, the final rounds of testing focused on further aligning the language and location of information on the Loan Estimate and the Closing Disclosure and ensuring an internal consistency in the Closing Disclosure. During those final rounds, the more closely we aligned these disclosures, the more consumer participants had a heightened sensitivity to sometimes quite subtle differences.

We made one other design decision to enhance participants' ability to compare the two disclosures by adding sequential numbers to each section of the *Closing Cost Details* for the Closing Disclosure. Although the Loan Estimate did not include line numbers, as we moved to the Closing Disclosure, the quantity of items listed in *Loan Costs* and *Other Costs* in *Closing Cost Details* expanded. In testing, both consumer participants and industry participants stated that they found line numbers to be useful since they simplified how to accurately refer to an item when talking with others involved in the transaction. They wanted line numbers added to the Closing Disclosure.

Overwhelmed by the traditional design

Using the current HUD-1 design (called Design 1 in testing), participants were overwhelmed by the list of fees and could not easily relate them back to the Loan Estimate. Consumer participants who used Design 1 were less able to identify what accounted for changes from the Loan Estimate to the Settlement Disclosure than those participants who used Design 2.

“ Like I said, [Design 1] is a bunch of numbers that you are not sure how they came up with them. The information is not really clear. The other one [Design 2] had everything sectioned off where you could see the total and how they arrived at whatever the figure was that you needed for closing and everything else. This one here has the numbers on it, but it is too much to try to figure out how they came up to it for me. (AL-001-Experienced)

Initially, you would think it [Design 1] would be an easy follow. But once you get to page 3 [the detailed Closing Costs], it's hard to locate what items you need [to compare]. (AL-004-Experienced)

[Using Design 1] I'm overwhelmed at this point. It's just a lot going on. I know we have to take out time to look through all of it, but at this point I would just be so kind of taken back on all of the breakdowns. (AL-007-No Experience)

...I think you're focusing more on the numbers than the actual material. (AL-00-Experienced)

I'm all over the place. The information is not in a form that's easy for me to follow. To be honest, when I first look at it, I just see words. I don't see any meaning to the words. I see words and numbers. I really have to make myself focus to see what the words and numbers are, and even then kind of jumping all over the place to make meaning out of it. (AL-005-No Experience)

Activated by the matching design

In stark contrast to performance with the current HUD-1 design, both experienced and inexperienced participants who used the matching design found the changes that had increased costs, identified new fees, and saw fees that had shifted categories.

“ For a side by side comparison you could actually see where the increases are and it kind of spells it out better on the loan. (AL-005-No Experience)

The difference in the cash to close between the estimate and the settlement...includes actual taxes and what not that you didn't have before. And then, of course, several things went up like the homeowners insurance premium showing under prepaid. It's \$904 here, and it's \$450 under the estimate. And the prepaid interest is higher. Well, that could just account for more days because it's still the same per day that we discussed earlier. And the escrow is more. The actual was \$740.04 and then the estimate was \$254. (AL-002-Experienced)

It looks like more items [are] here that I did not shop for [changed]. In B, yes, Section B. It looks like here, Section C here has less, so that changes that calculation. (AL-004-Experienced]

Because they did it on the [Loan Estimate], keep the order the same here [Closing Disclosure], it makes it a lot easier, just the comparison to try to match up, so just keep the order same. (PA-005 No Experience)

The settlement cost. They've added in a deed cost and a mortgage tax and recording fees. Well, the recording fees are over here, but they're higher from the disclosure. Prepays. They've added in homeowner's insurance to an XYZ Company, and a windstorm insurance premium. And prepaid interest is higher. And then the initial escrow payment at closing, homeowner's insurance is higher. And they've added a Windstorm Insurance Company again. Nothing for condo. Calculation is a lot higher. It's \$3,741.40. Calculating closing costs is \$7,458.40. (AL-006-No Experience)

I do like a couple of things on here. The calculation statement right here. It shows where you come up with the \$3,717. A, B, and C. It makes more sense when you see it coming total fee paid by borrower. You know how they came up with that amount...It makes more sense to me. (AL-001-Experienced)

Confused when language was different

Experienced and particularly inexperienced participants were sensitive to language differences between the Loan Estimate and Closing Disclosure. They expected that the language patterns from the Loan Estimate would continue on the Settlement Disclosure and were confused when they were different.

“*Total borrower paid settlement cost...I don't see that on here [Loan Estimate]. It's listed differently. Maybe I'm reading it wrong. Because this amount here is the "total settlement fees" and that's \$5,170 and it's listed here as "Calculating cash to close," but then the "total borrower paid settlement fees" is definitely different and it has a different title. (PA-010-No Experience)*

Well, number one is they don't have no settlement fee over here, right? So, it's not going to be the same because it's written down differently...It would be very helpful for me if the same, because for a person just looking at this...it would be confusing. (PA-006-No Experience)

More difficulty comparing when location of fees different

Because participants wanted to compare the Closing Disclosure to the Loan Estimate, they expected the fees and fee titles to match exactly between the two. When fees did not match or when they were not in the exact same location, participants, particularly the inexperienced, were confused. Some participants also commented on the new fees added to the Closing Disclosure and that those fees should have been included on the Loan Estimate.

“*Where they have closing costs financial and loan amount, I wouldn't understand what that H is, why they have that H...Yeah, what that H is because that could be kind of trickery right there. They have that in the paid at closing by borrower, and they got the H there too. So they got a price on both of them, but I'd like to understand what do the H mean? (PA-006-No Experience)*

So moving on to Section H. There's no Section H, which is something new that wasn't on the estimate. It's the total cost...settlement fees plus settlement costs, which is \$13,613.04. (PA-010-No Experience)

Total borrower paid settlement cost...I don't see that on here [LE]. It's listed differently. Maybe I'm reading it wrong. Because this amount here is the total settlement fees and that's \$5170 and it's listed here as calculating cash to close, but then the total borrower paid settlement fees is definitely different and it has a different title. (PA-010- No Experience)

I think it would be nice to include some of the settlement disclosure fees and costs actually in the estimates so that we know what we're paying for. Here it broke it down in page 3 all the services, the borrowers that we did not shop for [and] that we can actually shop for if we want to. The one service that I did buy for the pest inspection. All these services should actually be listed on here [Loan Estimate] as well. Not everything was on here [the Loan Estimate]. (PA-001-Experienced)

All these [fees] should be present in both of them. If I'm going to be buying a house I want to see both this numbers in both the places. That way I would know what I'm looking into or what I'm trapping myself into, or getting myself into. (PA-009-Experienced)

What I think would be helpful is if these were more identical, so I could make a more identical comparison. (TX-005-No Experience-Condition 2)

Easier referencing with line numbers

Both experienced and inexperienced participants noted that line numbers were useful to refer to a particular item.

“ [I prefer numbering] because you can identify easier. When you say, Section A, Number 02. It is easy to identify. (PA-004-No Experience)

I mean the numbers are easier when I want to say, hey look at B7, so I mean it doesn't really matter as far as understanding the information, but maybe communicating the information like if I was trying to talk to you or someone else about it, it would be easier with the numbers, so I could say, just look at B7 real quick. (PA-011-No Experience)

I think it [the numbering] does help, because if you want to say "Look at 3B, or 1C", then I think it really helps to just pinpoint where you're looking at. Rather than saying "Try to find the document preparation fee." Where is that? Where do I have to look? How do I get that? It's more confusing. (PA-012-Experienced)

Industry opinion on numbering

Industry participants responded well to the sequential numbering approach, even preferring the two-digit sequential numbering to the current HUD-1's three and four-digit numbers because it would be simpler for all parties. Industry participants also acknowledged that they would have a learning curve in using different numbers than those currently used in the HUD-1. They also wanted each number to always match a specific line item. The numbering ensured that they and others could easily and accurately fill in the disclosure and allowed for the professional shorthand that all professions develop to talk to others inside the profession.

“ I think [these numbers are] easier than Line 611, 610, 609. A1 and A2 is a little easier to follow than 101, 102, 103, especially when you get deeper into the HUD. I'm not opposed to it. But again, I'm thinking I've been using the same form for over 10 years or a very similar version of it, so it may be difficult for the industry to get used to it. (TX-Settlement Agent-004)

I like the ABC...I think it actually works well. Because we're used to saying the 700s, the 800s, and that can be a little confusing, and this breaks it down, I think, better for everybody. A-1, B-5 or whatever. I think it makes it makes simpler on those terms. (TX-Settlement Agent-003)

We've got that on HUD now, like 1101 is always the title, 901 is always the interest...I think we're just used to it. That's what we're familiar with. I know if I need to change the interest, 901, if I'm going to go change my commission, then it's 700, if I'm going to go change my escrows...you just know where you're at because that's what you're familiar with.... I think it's a familiarity thing, and that's what we've always done and you just know where to go. (TX-Settlement Agent-005)

I think so as long as [the number] coincides with what we've got in our system initially... If you are talking about processors talking back and forth to one another, title companies, and attorneys, it needs to be uniform so there is no misunderstanding. (TX-Lender-006)

I think it's important that [the numbers] stay the same across the board, that they should tie with an item. The number should coincide with whatever the item is. And just like on the HUDs now, they skip a couple of numbers sometimes because of a tax error or what not, so you just skip it...and this is probably kind of more for me than the consumer, is because we're the ones that are explaining this every day, and to explain it I think it makes it easier if it's in the same spot every single time. (TX-Settlement Agent-003)

Key Finding 7: Participants were more activated to ask questions and challenge costs in a design with itemized closing costs than in a design with lump sum closing costs

According to the National Assessment of Adult Literacy, 55% of adult Americans are at the Basic or Below Basic level in quantitative literacy skills, which indicates that they possess little more than simple and concrete quantitative literacy skills.³⁵ Considering those results, we can infer that a large portion of the population is likely to be overwhelmed by numerical or quantitative detail, especially when that detail is row after row of numbers. There are two logical reactions: (1) participants simply are unable to engage overtly, or skim through the numbers superficially, or (2) participants become so focused on items and numbers that they become entangled and lose the big picture of overall costs.

In Round 2 (California) and Round 3 (Illinois), these hypotheses were explored by presenting two Loan Estimate designs of the closing cost details, one itemized and one with lump sums. But the results were not what we expected. Participants used both lump sum and itemized designs of the *Closing Cost Details* to identify which basic services they could shop for. However, at a deeper performance level, the itemized *Closing Cost Details* activated participants to ask more questions and to challenge costs in the Loan Estimate.

While participants who saw lump sum designs commented positively on them, only some would ask for more detail about a significantly large dollar amount, such as in *Section A. Origination Charges*, or when they reached *Section C. Services You Can Shop For*, which indicates they can shop in the title. These participants tended to see more of the costs throughout the *Closing Costs* as “fixed” and so were somewhat passive in accepting the fees as a given and non-negotiable.

³⁵ See http://nces.ed.gov/naal/kf_demographics.asp

In contrast, participants who saw the itemized designs were active in their questioning of fees, casually mentioning without prompting that they would negotiate a specific fee to see if they could get a better deal with the lender.

Findings

When shown the Loan Estimate with the itemized design (whether first or after they had seen the lump sum design), participants stated that they wanted the itemized design because of the additional level of detail. For them, the higher level of itemization indicated a higher level of disclosure. In terms of performance, participants did not limit themselves to challenging only *Section C. Services You Can Shop For*. They were willing to challenge more fees in *Sections A and B*, stating that they would ask about a fee and would try to eliminate those fees or negotiate a lower cost. These participants were also more likely to state that if they could not negotiate better costs, they would go to another lender. Importantly, participants—even those who did not like numbers—stated that engaging with the detail was a fiscal responsibility, for themselves and for their families.

More questions raised

The itemized design stimulated participants to ask questions that showed the more sophisticated cognitive processing of analysis, evaluation, and synthesis. When provided with itemized breakdowns of costs and fees, participants identified more services or fees that, outside of *Section C. Services You Can Shop For*, could be negotiated, such as questioning items listed in *Section A. Origination Charges* and stating that they would want to negotiate some of these items.

“Preparation fee is \$35, underwriting fee is \$300, tax service—I guess one of the things I would wonder is what is the difference between all of the fees? I would think the documentation preparation fee—it would be bundled somehow. So that would be something I’d be concerned about...Like a preparation fee—in my mind a preparation fee would be including the administration—like what is administration fee, how is that different from preparing the documents? Or underwriting? In my mind underwriting means preparation of documents. So how is underwriting different from document preparation? Verification fee—I guess for clarification I’d wonder verifying maybe the data of what’s included in it or my information. So I would wonder where all of those fees kind of accumulated from or broken down. (IL-004)

It just spells out more and...gives you a heads up of what you can negotiate...Right here, [in Section A] you can think about whether they can waive some of those fees since its administrative fees where here [lump sum design] it’s just origination services. Before I did have a question on origination services but here [itemized design] it’s like “ok, they spell out what can be negotiated on that.” (IL-001)

I just feel this one has things you can check for and it gives you more detail...It gives you more of a specific place that your money is going to, if you look at something and it says administration fee \$500, you ask what does that entail? And here it breaks it down more [about] where every dollar is going. (IL-002)

This [itemized design] just really breaks everything down, services you can shop for, services you can't shop for which isn't on [lump sum design] at all. I think the cash to close is a lot easier to understand and the calculations are broken down better...everything's so neat and separated. I like [this itemized design] a lot better...I just think this makes me feel more comfortable. (MA-004)

This form [itemized design] I like better than this one [lump sum design]...because there is more detail with the cost and taxes and it is more concentrated in the areas...It is just more detailed. (CA-001)

Ethical rationale for itemization

Some participants suggested an ethical rationale for choosing the more itemized version of page 2. They described purchasing a house as a major investment—and additional detail helped them make a more informed purchase and be more responsible to their families.

“ One side of me likes what appears to be the simplicity of reading this [lump sum design], but on the other side I think detail is important. So you know, even though it's easier to look at this, maybe I do need to have everything and then read it in greater detail [itemized]. So to be a good consumer, to be fair to my family, maybe this is better—knowing more information. You could never have too much information on an important decision like a loan. (CA-005)

It has all the fees on there. I just like especially if you are going in to make such a big purchase, I definitely like seeing where I am getting charged at and this one demonstrates that for me. (CA-002)

Industry Opinion

Industry participants wanted more itemization to force greater transparency and make it easier for consumers to compare. They felt consumers would want to see a more itemized breakdown of costs and fees and to know where their money was going. Some industry participants stated they would use a worksheet to break out these details, if itemization was not provided on the disclosure. One settlement agent participant noted that lump sum fees result in borrowers asking fewer questions at closing, and stated that in that regard, lump sum fees would be easier for conducting settlements.

“ To be honest, that's another thing that I think should, well, if it were possible to be added on, if there was a way to explain to a client what origination fees really are... One suggestion can be a separate page that may detail that. Second page may be a certification page that the originator signs to verify they did explain the two different scenarios to the consumer. (MD-Lender-001)

I would like the ability to have a worksheet to break out what the costs are even further. For instance, origination fees from lender, what do they cover? Is that origination a point, one percent of the loan, a little bit higher than that?...I would like to see what other fees, for instance, what do they cover? What do they go towards? Is it the processing or

whatever? They lump all this money together and I would put a fee to what each one costs, a cost, so you know what is being charged here. (MA-Lender-002)

Yes, and I want to see a breakdown. I think people want to see breakdowns. I don't think people want to see a lot of detail. But when it comes to dollars and where their money is being spent, they want to see detail. They want to see is this origination fee...what does this cover? Is it an admin fee to the lender? What is origination fees to lender of \$1,400? What is that? Is that \$1400 worth of junk fees? Which are not against the law, but what is in that number? Is that \$400 for an admin fee? What is in these numbers? This is where the detail has to be, absolutely... What are these fees? Because if they're too high, I'm going to shop. That's got to be itemized. (MA-Broker-001)

I think the consumer likes to see them broken out. Well, yes and no. Because when they see it, well, "Why am I paying that one?" And then they start nitpicking. So the bundled is kind of nice because then it's just one fee that they see and they don't question it much. (TX-Settlement Agent-005)

Comparison Measures

In the Loan Estimate and Closing Disclosure, on the pages after the *Loan Terms* and the *Closing Cost Details*, we included four measures—*In 5 Years*, *Total Interest Percentage (TIP)*, *Cost of Funds*³⁶—and the long-standing *Annual Percentage Rate (APR)*. The *In 5 Years* disclosure, adapted from the current TILA *Total of Payments* disclosure, gives consumers a way of measuring the relative differences between loans in terms of principal paid and total other costs paid in a readily comprehensible time period--the first five years of the loan. *TIP* and *Cost of Funds* are new requirements of the Dodd-Frank Act. *TIP* gives a measure of the total percentage of interest paid over the life of the loan compared to the loan amount. *Cost of Funds* provides an approximation of the cost a lender pays to access the money it lends to a consumer for a particular loan. The *APR* is designed to provide consumers a way of measuring the total cost of credit and comparing loan products.

Key Finding 8: Of the four comparison measures provided in the Loan Estimate and/or Closing Disclosure, participants used two (*In 5 Years* and *Total Interest Percentage*) to evaluate individual loans and choose between loans. They found two others (*Cost of Funds* and *Annual Percentage Rate*) confusing and not useful.

Participants in the testing used these four measures in different ways. Most participants used the *In 5 Years* and *Total Interest Percentage (TIP)* measures as a way to judge the relative merits of two loans and as one factor to consider when choosing a loan. On the other hand, most participants did not use the *Cost of Funds* and the *Annual Percentage Rate (APR)*, commenting that they were confusing or created a negative tone.

³⁶ In various rounds of testing, the *Cost of Funds* was labeled *Lender Cost of Funds*, *Average Cost of Funds*, and *Approximate Cost of Funds*.

Findings: In 5 Years

The *In 5 Years* measure shows how much will be paid in total and the amount of principal that will be paid off in the five years after the loan closes. The team chose the five-year period because, historically, it is roughly the time period the average consumer stays in a loan. In addition, it is a more accessible time period for consumers than the life of the loan (typically 30 years), which is used in other disclosures (such as the current TILA *Total of Payments* disclosure). From the start, participants used this measure to compare the loans given during the testing sessions, identifying the loan that showed more principal paid off in five years as one of their choice factors. Participants often used the *In 5 Years* disclosure to identify the 5 year interest only loans.

Comparison between loans

Participants used both the *Total Payments* and the *Principal Paid* components of *In 5 Years* to compare the loan with the other loan they were considering and, sometimes, to increase their understanding of loan costs. For example, participants sometimes did not recognize that loans were interest only from the first page of the Loan Estimate, even if they understood that their loan payments would increase. However, when they looked at *In 5 Years*, they grasped quickly that they would be paying only interest for the first five years, and often times would reject the loan.

“ I think really the biggest thing that I would like or the thing that catches my eye the most is the amount of principal that they state will be paid off in five years. On the Beech Bank, it shows \$17,000 towards the principal paid off in five years, and on the Ficus, it shows \$15,000 paid off towards the principal in five years, so that’s what I will look at. (NM-004)

So in five years I’m paying off more of the principal on the Laurel and I have a lower interest rate. (IL-004)

I’m looking at the comparison of the estimated cost of the loan. It looks like this one they’re paying more towards the principal rather than interest. (IL-006)

It tells me that the bank has made seventy-nine thousand dollars. It is telling me that I have paid seventy-nine thousand, nine hundred and ninety-three dollars in five years. Out of that, only \$19,761 has gone to the loan payment of \$216,000. (MD-001)

Total amount of interest that you will pay over the loan term as a percentage of your loan amount. So over the entire term of your loan you’re paying 99% interest. So you are almost doubling. You’re almost doubling your loan. (TX-001-No Experience-Condition 3)

It would change my mind to the other bank, to Ficus, because there’s a principal paid off of \$15,773. So that tells me that my payment, some of it, is obviously going to principal, as opposed to here it’s saying nothing [principal] is paid in five years. So that means I’m paying nothing but interest, insurance, tax, fees, stuff like that, and none of it is actually going to principal, so I would change my mind based on this. (NM-005)

Industry Opinion

Most industry participants did not think that consumers would want to know the information in the *In 5 Years* measure. Some thought that the period should vary according to the loan term. A few, however, stated that this measure was a manageable period of time that could be useful to participants.

“They don’t care what they have to pay off in five years. They want to know how they could pay it off sooner. I think that would be more effective than the five years part. (MD-Lender-001)

“In 5 Years comparisons”—the total you would have paid in five years with principal interest, mortgage insurance and fees is \$42,366 so that gives people an idea in five years, and I do not know why it does not go seven years because it is a seven-year ARM which is confusing a little bit because they go up in a year so why not do seven years. (MA-Lender-002)

I’m not sure why this is here as to how much they’ve paid off in five years. I don’t even know why that is on there. (MA-Broker-001)

Let’s see here...when you pay it off. That’s kind of good info. I notice here, this is actually kind of what I explain, too, in five years, prepaid interest, that’s really helpful. (CA-Lender-001)

And again, it looks like a good understanding. Here is basically in five years what the total principal and interest would have been paid—people know that up front. In other words, when you tell them what it is over the life of the loan, that becomes too much information, it’s too large of a piece of information. So the idea is they’re breaking it down into a five-year period of time. (CA-Broker-002)

Findings: Total Interest Percentage (TIP)

In the Loan Estimate, most participants used the *Total Interest Percentage (TIP)* to compare loans, choosing the lower percentage as a better loan. In the Closing Disclosure, they used it as a measure of what they would pay in interest. Although they did not understand the more technical aspects of this measure (such as the difficulty of using it with an adjustable rate loan), participants understood the basic concept of total interest as a percentage of principal. Participants used the measure to achieve a more complete understanding of the loan.

“I’m back to – holy moley! – total interest percentage on this one...okay, Beech is out! Beech is 100% out. I would never even look at that again. Throw it away. I want to go back to Ficus. I like them better. (NM-006)

It is a huge percentage. I am paying way more for my house than I ever thought I would. Very good to know. (PA-001-Experienced)

Over time, you're paying a lot of interest, so there's really no way of not paying that. That's what it's going to come out to be: 79.75%...I feel it's good to have an idea of what you'll have to shell out in the future, and how you can use that money and that information to make other decisions, whether to buy a car...I think it is helpful. I'd rather have more information than not. (PA-012-Experienced)

I'm looking at the estimate – 74.4. Is that a percent? That's scary. That's like a lot of interest. (AL-007-No Experience)

Well, as I said it's a shock to see that you're paying so much in interest and other costs over the term of the loan, but if you think about it a while you can come to grips with it. (TX-011-Experienced–Condition 3)

Industry Opinion

Contrary to what consumer participants said, the industry participants felt consumers would not understand *TIP*, would not know what to do with it, or would have a negative reaction to it. At least one industry participant noted that the time period for the *TIP* (i.e., the life of the loan) was not a useful measure for consumers. However, in Round 9 (Texas), industry participants thought it would be helpful to consumers.

“ I don't think they would [use Comparisons]. They don't think that way. They don't think that...this loan is better because I am paying 74% of my loan amount over the entire term of the loan; to put it as a percentage, I think it just takes it another step away from clarity. (NM-Broker-001)

Total interest percentage... is only if they pay the loan in full. I mean so many mortgages don't come to fruition, and aren't paid. I don't know that that's material. (IA-Settlement Agent-001)

They are going to have a negative reaction to it [TIP]...Thinking of it from my standpoint. From a borrower standpoint, again, if I walked in with my husband and I thought I was paying 79% I would be like...I would say to him are we crazy? I would reconsider. I would reconsider whether or not I want to borrow all that money. (PA-Settlement Agent-002)

They can look at that and think why am I paying so much interest? It can always, that can be scary. So like if they're 99.1% or 1% interest...If purchasing a home everyone knows that's the biggest purchase you'll probably ever make so you expect to have a large and pay a lot of interest, but it can just be scary for people. Which goes back to how I said earlier it might scare them off but if you aren't able to do the loan then you should be prepared at the beginning of the process. So all in all it's a good thing to have here because it does allow people what they're going to be paying. (TX-Lender-001)

It would be good to know what the total interest spent would be. In the long run I am sure they would want to be prepared, so I think that would be helpful. (TX-Lender-002)

Findings: Cost of Funds

Because *Cost of Funds* was a difficult concept to convey to participants, we experimented with different approaches over Rounds 5 (New Mexico), 6 (Iowa), 7 (Alabama), 8 (Pennsylvania), and 9 (Texas). We varied the title from *Lender Cost of Funds* to *Average Cost of Funds* to *Approximate Cost of Funds*. We changed the language, starting with simple plain language, shifting to more technically precise language, and then changing back to simpler language. We also varied the presentation: showing it in a prose paragraph and in a table with related terms. Finally, we used various bases to choose the sample *Cost of Funds*, including figures from bank performance reports and publicly available indices.

In all cases, both experienced and inexperienced participants questioned the *Cost of Funds* and could not articulate how this information helped them. Across the five rounds in which it was tested, only one of the forty-eight consumer participants who we tested it with, showed any interest in the figure, stating it was “interesting,” but the participant did not use it to evaluate the loans. All others were confused by it or stated that since it was not a direct cost to them, it was not important to them. A few participants even identified tone issues when it was included.

Confusion about the term

In general, nearly all participants, experienced and inexperienced, did not understand *Cost of Funds* and questioned why this figure was included in the disclosure. *Cost of Funds* seemed to raise more questions than it answered, and most participants suggested removing it. Participants were able to read that *Cost of Funds* was not a direct cost to them, but they questioned why it was being disclosed and/or wanted to know who was paying it.

“So the lender, meaning I’m assuming the bank, who are they borrowing the money from to lend that back to me? And why is there a percentage attached to that? So, that’s seems a little bit confusing to me because I feel like I’m the borrower, borrowing from the bank, but is the bank borrowing the money from somewhere? (NM-005)

I guess it’s nice they tell you. I don’t think you can really negotiate a whole lot when it comes to these things. I don’t know why it really matters I guess. (NM-006)

“The cost of funds used to make this loan.” “Lender Cost of Funds is not a cost to you”... I’m glad it said this is not a cost to me. But if it’s a cost, then who pays it? (IA-003)

If it’s not a direct cost to me – no, I don’t think it should be included if it’s nothing that’s affecting me directly or if it’s not something that I’m being charged or billed. (AL-003-Experienced)

They are saying the cost of funds used to make this loan is not a direct cost to you. If it is not a direct cost to me, why are they showing it? (PA-004-No Experience)

Why do I need to know about the lender? I want to know what I’m paying, I’m the one that’s putting out a lot of money. To me, it’s doesn’t make a difference. You can tell me that, or not, but I don’t really think it’s necessary...That’s fine, they can tell me, but I think

sometimes it gets more confusing. More numbers, more percentages. Sometimes less is more. Just tell me what I need to know. (PA-012-Experienced)

So who pays it? I want to know what that is – what it is – cost of funds used to make this loan and who is paying? Because somebody is paying for that fund, and it has to do with the loan I'm doing. So where is it coming from? (TX-001-No Experience-Condition 3)

My take-away from that is this is something I am not paying for. Are they trying to say "hey, we are using 1.22% of our own money to make this happen?" I do not understand. If I am not paying for this, then why is this listed here? (TX-005-No Experience-Condition 2)

Tone issues

Several participants expressed a feeling of offense in reaction to *Cost of Funds*.

“ It just seems unnecessary to me. It almost makes me feel like I should be glad that they are only having to pay this much or how would I say, sort of like, almost like a threat in a way. This is how it kind of makes me feel...it almost seems to me like they are kind of taunting in a sense that they are sharing that with you and so, therefore, you should feel more comfortable about going with the loan because they are disclosing some of their personal financial stuff. That's what that kind of how that made me feel a little bit. (NM-004)

[*Cost of Funds* is] showing me what it costs the bank to fund the loan. To be honest [it would not be useful] because it would make me angry...Because I'm paying a loan and it only costs the bank less than 2% to fund the loan but I'm paying the interest rate and you're making nothing but profit and I'm paying more interest. It's probably better not knowing. (AL-005-No Experience)

Industry Opinion

Industry participants believed that consumers would be confused by *Cost of Funds*. In fact, some industry participants were confused by it.

“ The lender cost of funds is not going to mean anything to any consumer, so it's totally irrelevant...they won't ask or they won't know or, and it's going to be hard to explain exactly what that is, and have them understand, so I don't know why that's in there. (NM-Lender-002)

Actually I think [*Cost of Funds*] is probably kind of counterproductive. As the business lender, if your rate is 1.04%, why is this costing me five point whatever? Why can't you give me a lower point? (IA-Lender-001)

If you're not paying for it, why would it be significant? (IA-Settlement Agent-001)

I do not even know what that means, the Lender Cost of Funds. I do not know what that means, 1.35%. When I say I do not know what it means, to me that would be confusing. (AL-Settlement Agent-002)

I don't really know what it is. I don't know what the calculation is. It just says it is the percentage of the cost of funds. Where are they getting it from? What is the calculation for it? (PA-Settlement Agent-002)

This is not a direct cost to you. I don't believe that would necessarily be needed. Of course, it's good to have full disclosure, yes, but I don't see a dire need for that information exactly. (TX-Lender-001)

No, I do not think [Cost of Funds is useful], because that is not really a direct cost to them. (TX-Lender-002)

Finding: Annual Percentage Rate (APR)

As other studies have documented, participants often do not grasp the basics of *Annual Percentage Rate (APR)*³⁷. They often confused it with the loan's interest rate. Across the rounds, we worked with various definitions, but found none worked as well as the simple statement of "This is not your interest rate." Obviously, that statement did not tell consumers what the APR was, but it minimized the confusion with the interest rate.

Confused about APR

Most participants confused the APR and the interest rate. They also misinterpreted the APR's meaning, sometimes thinking it was included to mislead them.

“ *I am trying to figure out where this 5.59 [APR] comes from because I thought the interest rate was 2.5. I would probably ask the loan officer about that. I would say how come it is 2.5 up here and 5.9 down there. (MD-001)*

I'm looking at annual percentage rate of 5.89%. Express interest over 30 years...who's giving this different interest rate out?...Is it just a comparison that they put to make the interest rate more attractive? The comparison...I want to know where they got this comparison from, what company did this come from? (MD-004)

This rate expresses your cost over 30 years. That phrase always confuses me—annual percentage rate. I confuse that with the interest rate. So it will say this is not your interest rate but it doesn't tell me exactly what it is, especially your cost over 30 years. Cost of what? That I think could be clearer. (IL-004)

37 See ICF Macro International, *Design and Testing of Effective Truth in Lending Disclosures: Findings from experimental study*. Available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20081218a8.pdf>;

ICF Macro International, *Design and Testing of Truth in Lending Disclosures for Closed-end Mortgages*. Available at <http://www.federalreserve.gov/boarddocs/meetings/2009/20090723/FullMacroCEReport.pdf>;

Lacko, J and J. Pappalardo (2007), *Improving Consumer Mortgage Disclosures: An Empirical Assessment of Current and Prototype Disclosure Forms*, Federal Trade Commission, Bureau of Economics Staff Report, Washington, DC. Available at ftc.gov/opa/2007/06/mortgage.shtml

Costs over the loan term – oh, I’m confused. I don’t understand the difference between a percentage rate and an interest rate. (MA-004)

I don’t understand the difference of the interest rate. What’s the difference between this and the one they have in the front? (NM-002)

Well, I would need an explanation on what that APR rate is exactly because I wouldn’t know if higher or lower is good or worse, so I would probably need an explanation. (NM-005)

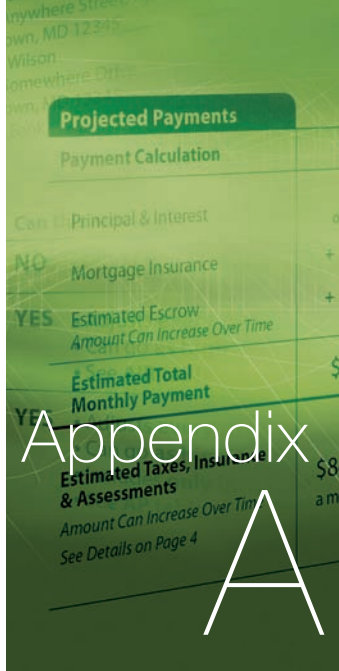
Industry Opinion

Most industry participants thought the APR was a difficult concept for consumers to understand. At least one industry participant suggested the form show the calculation for the APR.

“ Annual percentage rate is a very, very hard concept for the average person to understand because...they’re seeing two different things [interest rate and APR]. (MD-Lender-001)

I find my clients are less geared towards the APR. They don’t fully understand that concept. They want to know what the interest rate is. (MD-Lender-002)

So you’ve got the TIL, you’ve got the annual percentage rate. I’d kind of like to see a calculation for the TIL in here so that people can understand how when you’re doing a 3.375 rate you ended up with 3.96 annual percentage rate...I’d like to see a block in there, if we’re going to eliminate the TIL, to show how this 3.96 rate was derived at. (MA-Broker-002)

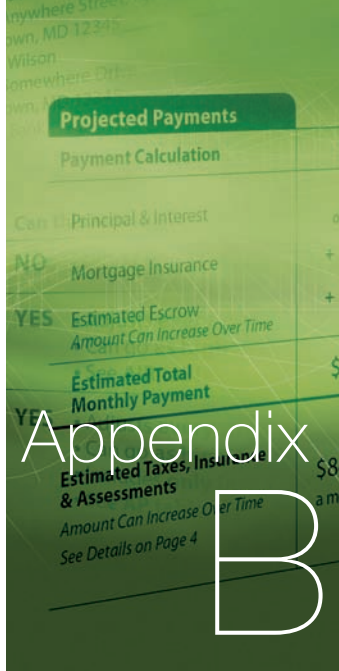


Demographic Summary: Rounds 1 – 10

Rounds 1-10 Demographics

Note: Not all participants answered every question

		Rounds 1-5	Rounds 6-10	Total Consumers and Industry
		Consumers= 37 (English) Consumers= 9 (Spanish Primary Language) Industry= 10 N=56	Consumers=40 (English) Industry=12 N=58	Rounds 1-10 N=114
Gender	Male	30	25	55
	Female	26	33	59
Married	Yes	31	31	62
	No	25	26	51
Race	Black	11	20.5	31.5
	White	21	34.5	55.5
	Asian	3	3	6
Hispanic/Latino	Yes	18	6	24
	No	32	52	84
Age	18–30	9	12	21
	31–45	22	23	45
	46–60	19	17	36
	60 +	5	6	11
Education	Less than high school, high school or GED	13	21	34
	Some college or a 2-year college program	20	15	35
	College graduate	16	18	34
	Additional education	7	4	11
Household Income	Less than \$35k	4	11	15
	\$35,001–70,000k	28	23	51
	\$70,001–125,000k	16	19	35
	Over \$125,000k	7	5	12
Bought/refinanced in last 5 Years	Yes	30	21	51
	No	18	21	39
Experienced Delinquency	Yes	9	1	10
	No	37	45	82
Plan to buy/refinance in next year	Yes	37	Not asked	37
	No	9	Not asked	9
Owned home in the past	Yes	33	4	37
	No	13	38	51
Own home now	Yes	Not asked	22	22
	No	Not asked	24	24



Loan Estimates (English) for Round 1 – Baltimore, MD

Round 1 – Loan Estimate design 1, fixed rate example A, page 1

BALSAM BANK 4321 Random Boulevard
Somecity, ST 54321

LOAN ID # 1330172608
LOAN OFFICER Joe Smith
PHONE 555-123-4444
EMAIL joesmith@balsambank.com
NMLS ID# 01234567

Loan Estimate

LOAN AMOUNT	\$221,000	DATE EXPIRES	05/18/2011 06/02/2011 at 3:00 PM
LOAN TYPE	30 year fixed rate	APPLICANT	Jane Johnson
PURPOSE	Purchase	PROPERTY	456 Avenue A Anytown, ST 12345
PROGRAM	Conventional		

Key Loan Terms

Can key loan terms change after closing?

Interest rate	5.125%	NO	
Monthly loan payment	\$1,203.33	NO	
Monthly taxes and insurance	\$452	YES	• Estimated. Could increase over time.

Cautions

Can loan features trigger higher or additional payments?

Increasing loan amount	NO
Balloon payment	NO
Prepayment penalty	NO

Comparisons

Use these additional measures to compare this loan with others.

Annual Percentage Rate	5.98% expresses interest and costs over 30 years.
In 5 Years	\$17,702 is the loan amount you have paid off in 5 years after paying \$86,447.

Projected Payments

Expect to make these payments.

AT CLOSING	YEARS 1 – 9	YEARS 10 – 30
\$4,167 Closing Costs You Pay See details on back.	\$1,655 a month	\$1,487 a month
+ \$24,000 Down Payment	Includes \$452 estimated taxes and insurance.	Estimated total monthly payment. Includes \$284 estimated taxes and insurance.
These amounts will be adjusted for credits and deposits.		

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 1, fixed rate example A, page 2

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs			
A	Origination Fee.	This fee cannot change. Includes <u> 0 </u> points (\$0)	\$1,750
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$200) and credit report (\$15) provided by lender-related companies: SCR Appraisal and HBR Credit Inc. • Total cannot be higher than \$743 at closing.	\$675
		Government Charges	\$2,000
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$1,672
		Pest Inspection	\$100
		Homeowner's Insurance	\$437
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$455
		Home Warranty	\$250
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$723
		Prepaid Interest (15 days @ 5.125%, \$31.47/day)	\$472
F	Total Closing Costs	A + B + C + D + E	\$9,167
G	Credits from Lender or Seller		0
H	Amount of Total Closing Costs to be Financed		\$5,000
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$4,167

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM.**
After this time, the loan features and closing costs on this form may not be available.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Round 1 – Loan Estimate design 1, fixed rate example B, page 1

BEECH BANK

4321 Random Boulevard
Somecity, ST 54321

LOAN ID # 1330172608
LOAN OFFICER Joe Smith
PHONE 555-123-4444
EMAIL joesmith@beechbank.com
NMLS ID# 01234567

Loan Estimate

LOAN AMOUNT	\$221,000	DATE EXPIRES	05/18/2011 06/02/2011 at 3:00 PM
LOAN TYPE	30 year fixed rate	APPLICANT	Jane Johnson
PURPOSE	Purchase	PROPERTY	456 Avenue A Anytown, ST 12345
PROGRAM	Conventional		

Key Loan Terms

Can key loan terms change after closing?

Interest rate	5%	NO	
Monthly loan payment	\$1,186.38	NO	
Monthly taxes and insurance	\$461	YES →	• Estimated. Could increase over time.

Cautions

Can loan features trigger higher or additional payments?

Increasing loan amount	NO	
Balloon payment	NO	
Prepayment penalty	YES →	As high as \$4,420 if you sell your home, refinance, or pay off the loan during the first 3 years.

Comparisons

Use these additional measures to compare this loan with others.

Annual Percentage Rate	5.68% expresses interest and costs over 30 years.
In 5 Years	\$18,059 is the loan amount you have paid off in 5 years after paying \$81,263.

Projected Payments

Expect to make these payments.

AT CLOSING	YEARS 1 – 9	YEARS 10 – 30
\$4,167 Closing Costs You Pay See details on back.	\$1,647 a month Includes \$461 estimated taxes and insurance.	\$1,479 a month Estimated total monthly payment. Includes \$293 estimated taxes and insurance.
+ \$24,000 Down Payment		
These amounts will be adjusted for credits and deposits.		

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 1, fixed rate example B, page 2

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs			
A	Origination Fee.	This fee cannot change. Includes <u>0</u> points (\$0)	\$2,000
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$300) and credit report (\$18) provided by lender-related companies: SCR Appraisal and HBR Credit Inc. • Total cannot be higher than \$953 at closing.	\$866
		Government Charges	\$2,015
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$1,745
		Pest Inspection	\$90
		Homeowner's Insurance	\$637
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$650
		Home Warranty	\$550
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$649
		Prepaid Interest (15 days @ 2.5%, \$15/day)	\$225
F	Total Closing Costs	A + B + C + D + E	\$10,060
G	Credits from Lender or Seller		0
H	Amount of Total Closing Costs to be Financed		0
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$10,060

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM**. After this time, the loan features and closing costs on this form may not be available.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Adjustable Interest Rate Information

Index	Prime
Margin	2.5%
Lifetime Maximum Rate	10%
Lifetime Minimum Rate	2.5%

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Cap on Interest Rate Changes

At First Change	3%
At Subsequent Changes	3%

Change Frequency

First Change: 2 years from loan date
Subsequent Changes: Every year after first change

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Round 1 – Loan Estimate design 1, ARM example C, page 1

FICUS BANK

4321 Random Boulevard
Somecity, ST 54321

LOAN ID # 1330172608
LOAN OFFICER Joe Smith
PHONE 555-123-4444
EMAIL joesmith@ficusbank.com
NMLS ID# 01234567

Loan Estimate

LOAN AMOUNT	\$216,000	DATE EXPIRES	05/18/2011 06/02/2011 at 3:00 PM
LOAN TYPE	30 year adjustable rate	APPLICANT	Jane Johnson
PURPOSE	Purchase	PROPERTY	456 Avenue A
PROGRAM	Conventional		Anytown, ST 12345

Key Loan Terms

Can key loan terms change after closing?

Interest rate	2.5% to start	YES →	<ul style="list-style-type: none"> • Can go as high as 10% in year 5. • Adjusts yearly starting in year 3. • See details on back.
Monthly loan payment	\$853.47	YES →	<ul style="list-style-type: none"> • Can go as high as \$1,810. • Adjusts yearly starting in year 3.
Monthly taxes and insurance	\$427	YES →	<ul style="list-style-type: none"> • Estimated. Could increase over time.

Cautions

Can loan features trigger higher or additional payments?

Increasing loan amount	NO
Balloon payment	NO
Prepayment penalty	NO

Comparisons

Use these additional measures to compare this loan with others.

Annual Percentage Rate	5.59% expresses interest and costs over 30 years.
In 5 Years	\$19,761 is the loan amount you have paid off in 5 years after paying \$79,993.

Projected Payments

Expect to make these payments.

AT CLOSING	YEARS 1 – 2	YEARS 3 – 8	YEARS 9 – 30
<p>\$10,060 Estimated Closing Costs See details on back.</p> <p>+ \$24,000 Down Payment</p> <p>These amounts will be adjusted for credits and deposits.</p>	<p>\$1,280 a month</p> <p>Includes \$427 estimated taxes and insurance.</p>	<p>\$1,280 to \$2,237 a month</p> <p>Estimated total monthly payment. Includes \$427 estimated taxes and insurance.</p>	<p>\$1,170 to \$2,127 a month</p> <p>Estimated total monthly payment. Includes \$317 estimated taxes and insurance.</p>

For additional information and tools, visit www.consumerfinance.gov/futureurl

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs

A	Origination Fee.	This fee cannot change. Includes <u> 0 </u> points (\$0)	\$2,000
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$300) and credit report (\$18) provided by lender-related companies: SCR Appraisal and HBR Credit Inc. • Total cannot be higher than \$953 at closing.	\$866
		Government Charges	\$2,015
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$1,745
		Pest Inspection	\$90
		Homeowner's Insurance	\$637
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$650
		Home Warranty	\$550
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$649
		Prepaid Interest (15 days @ 2.5%, \$15/day)	\$225
F	Total Closing Costs	A + B + C + D + E	\$10,060
G	Credits from Lender or Seller		0
H	Amount of Total Closing Costs to be Financed		0
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$10,060

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM.**
 After this time, the loan features and closing costs on this form may not be available.

Adjustable Interest Rate Information

Index	Prime
Margin	2.5%
Lifetime Maximum Rate	10%
Lifetime Minimum Rate	2.5%

Cap on Interest Rate Changes

At First Change	3%
At Subsequent Changes	3%

Change Frequency

First Change: 2 years from loan date
Subsequent Changes: Every year after first change

Round 1 – Loan Estimate design 1, ARM example D, loan page 1

FIR BANK

4321 Random Boulevard
Somecity, ST 54321

LOAN ID # 1330172608
LOAN OFFICER Joe Smith
PHONE 555-123-4444
EMAIL joesmith@firbank.com
NMLS ID# 01234567

Loan Estimate

LOAN AMOUNT	\$216,000	DATE EXPIRES	05/18/2011 06/02/2011 at 3:00 PM
LOAN TYPE	30 year adjustable rate	APPLICANT	Jane Johnson
PURPOSE	Purchase	PROPERTY	456 Avenue A Anytown, ST 12345
PROGRAM	Conventional		

Key Loan Terms

Can key loan terms change after closing?

Interest rate	2.375% to start	YES →	<ul style="list-style-type: none"> • Can go as high as 12% in year 6. • Adjusts yearly starting in year 3. • See details on back.
Monthly loan payment	\$839.50	YES →	<ul style="list-style-type: none"> • Can go as high as \$2,098. • Adjusts yearly starting in year 3.
Monthly taxes and insurance	\$451	YES →	<ul style="list-style-type: none"> • Estimated. Could increase over time.

Cautions

Can loan features trigger higher or additional payments?

Increasing loan amount	NO
Balloon payment	NO
Prepayment penalty	NO

Comparisons

Use these additional measures to compare this loan with others.

Annual Percentage Rate	5.95% expresses interest and costs over 30 years.
In 5 Years	\$17,688 is the loan amount you have paid off in 5 years after paying \$82,155.

Projected Payments

Expect to make these payments.

AT CLOSING	YEARS 1 – 2	YEARS 3 – 8	YEARS 9 – 30
<p>\$10,060 Estimated Closing Costs See details on back.</p> <p>+ \$24,000 Down Payment</p> <p>These amounts will be adjusted for credits and deposits.</p>	<p>\$1,291 a month</p> <p>Includes \$451 estimated taxes and insurance.</p>	<p>\$1,357 to \$2,549 a month</p> <p>Estimated total monthly payment. Includes \$451 estimated taxes and insurance.</p>	<p>\$1,247 to \$2,439 a month</p> <p>Estimated total monthly payment. Includes \$341 estimated taxes and insurance.</p>

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 1, ARM example D, page 2

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs			
A	Origination Fee.	This fee cannot change. Includes <u>0</u> points (\$0)	\$1,250
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$410) and credit report (\$10) provided by lender-related companies: SCR Appraisal and HBR Credit Inc. • Total cannot be higher than \$1,045 at closing.	\$950
		Government Charges	\$2,015
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$2,048
		Pest Inspection	\$165
		Homeowner's Insurance	\$780
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$710
		Home Warranty	\$575
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$720
		Prepaid Interest (15 days @ 2.375%, \$14.25/day)	\$214
F	Total Closing Costs	A + B + C + D + E	\$10,060
G	Credits from Lender or Seller		0
H	Amount of Total Closing Costs to be Financed		0
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$10,060

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM**. After this time, the loan features and closing costs on this form may not be available.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Adjustable Interest Rate Information

Index	Prime
Margin	3%
Lifetime Maximum Rate	12%
Lifetime Minimum Rate	3%

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Cap on Interest Rate Changes

At First Change	3%
At Subsequent Changes	3%

Change Frequency

First Change: 2 years from loan date
Subsequent Changes: Every year after first change

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Round 1 – Loan Estimate design 2, fixed rate example A, page 1

LAUREL BANK

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@laurelbank.com
 NMLS ID# 01234567

LOAN ID# 1330172608
 APPLICANT Jane Johnson
 PROPERTY 456 Avenue A, Anytown, ST 12345
 LOAN TYPE 30 year fixed rate
 PURPOSE Purchase
 PROGRAM Conventional

DATE May 18, 2011
 EXPIRES June 2, 2011 at 3:00 PM

Loan Estimate

PROJECTED PAYMENTS Payments you should expect to make.

<p>AT CLOSING \$28,167 estimated Will be adjusted for credits and deposits.</p>	<p>YEARS 1 – 9 \$1,186 a month + \$461 estimated taxes and insurance. Estimated total \$1,647 a month.</p>	<p>YEARS 10 – 30 \$1,186 a month + \$293 estimated taxes and insurance. Estimated total \$1,479 a month.</p>
-------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

SUMMARY

Loan Amount **\$221,000**
 Monthly Loan Payment **\$1,186.38**

 Monthly Taxes & Insurance..... **\$461**
 • Estimated. Could increase over time.
 Interest Rate **5%**

Closing Costs You Pay **\$4,167**
 • See details on back.
 Down Payment **\$24,000**

CAUTIONS

These features trigger higher or additional payments.
 Adjustable Interest Rate..... **No**
 Increasing Monthly Payment ... **No**
 Increasing Loan Amount **No**
 Balloon Payment **No**
 Prepayment Penalty **As high as \$4,420**
 • If you sell your home, refinance, or pay off the loan during the first 3 years.

COMPARISONS

Use these additional measures to compare this loan with others.
 In 5 Years **\$81,263**
 Amount you have paid
\$18,059
 Amount of loan paid off
 APR..... **5.68%**
 • Expresses interest and costs over 30 years.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 2, fixed rate example A, page 2

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs			
A	Origination Fee.	This fee cannot change. Includes <u> 0 </u> points (\$0)	\$1,000
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$300) and credit report (\$18) provided by lender-related companies: PGV Appraisers and KJT Credit Co. • Total cannot be higher than \$1,052 at closing.	\$956
		Government Charges	\$2,000
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$1,898
		Pest Inspection	\$125
		Homeowner's Insurance	\$490
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$530
		Home Warranty	\$325
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$749
		Prepaid Interest (15 days @ 5%, \$30.70/day)	\$461
F	Total Closing Costs	A + B + C + D + E	\$9,167
G	Credits from Lender or Seller		\$0
H	Amount of Total Closing Costs to be Financed		\$5,000
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$4,167

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM.**
After this time, the loan features and closing costs on this form may not be available.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Round 1 – Loan Estimate design 2, fixed rate example B, page 1

LILAC BANK

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@lilacbank.com
 NMLS ID# 01234567

LOAN ID# 1330172608
 APPLICANT Jane Johnson
 PROPERTY 456 Avenue A, Anytown, ST 12345
 LOAN TYPE 30 year fixed rate
 PURPOSE Purchase
 PROGRAM Conventional

DATE May 18, 2011
 EXPIRES June 2, 2011 at 3:00 PM

Loan Estimate

PROJECTED PAYMENTS Payments you should expect to make.

AT CLOSING

\$28,167 estimated

Will be adjusted for credits and deposits.

YEARS 1 – 9

\$1,203 a month

+ **\$452** estimated taxes and insurance.

Estimated total **\$1,655** a month.

YEARS 10 – 30

\$1,203 a month

+ **\$284** estimated taxes and insurance.

Estimated total **\$1,487** a month.

SUMMARY

Loan Amount **\$221,000**
 Monthly Loan Payment **\$1,203.33**

 Monthly Taxes & Insurance **\$452**
 • Estimated. Could increase over time.
 Interest Rate **5.125%**

Closing Costs You Pay **\$4,167**
 • See details on back.
 Down Payment **\$24,000**

CAUTIONS

These features trigger higher or additional payments.
 Adjustable Interest Rate **No**
 Increasing Monthly Payment ... **No**
 Increasing Loan Amount **No**
 Balloon Payment **No**
 Prepayment Penalty **No**

COMPARISONS

Use these additional measures to compare this loan with others.
 In 5 Years **\$86,447**
 Amount you have paid
\$17,702
 Amount of loan paid off
 APR **5.98%**
 • Expresses interest and costs over 30 years.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 2, fixed rate example B, page 2

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs			
A	Origination Fee.	This fee cannot change. Includes <u> 0 </u> points (\$0)	\$1,750
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$200) and credit report (\$15) provided by lender-related companies: PGV Appraisers and KJT Credit Co. • Total cannot be higher than \$743 at closing.	\$675
		Government Charges	\$2,000
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$1,672
		Pest Inspection	\$100
		Homeowner's Insurance	\$437
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$455
		Home Warranty	\$250
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$723
		Prepaid Interest (15 days @ 5.125%, \$31.47/day)	\$472
F	Total Closing Costs	A + B + C + D + E	\$9,167
G	Credits from Lender or Seller		\$0
H	Amount of Total Closing Costs to be Financed		\$5,000
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$4,167

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM.**
After this time, the loan features and closing costs on this form may not be available.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Round 1 – Loan Estimate design 2, ARM example C, page 1

PECAN BANK

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@pecanbank.com
 NMLS ID# 01234567

LOAN ID# 1330172608
 APPLICANT Jane Johnson
 PROPERTY 456 Avenue A, Anytown, ST 12345
 LOAN TYPE 30 year adjustable rate
 PURPOSE Purchase
 PROGRAM Conventional

DATE May 18, 2011
 EXPIRES June 2, 2011 at 3:00 PM

Loan Estimate

PROJECTED PAYMENTS Payments you should expect to make.

<p>AT CLOSING \$34,060 estimated Will be adjusted for credits and deposits.</p>	<p>YEARS 1 – 2 \$853 a month + \$427 estimated taxes and insurance. Estimated total \$1,280 a month.</p>	<p>YEARS 3 – 8 As much as \$1,810 a month + \$427 estimated taxes and insurance. Estimated total \$1,280 to \$2,237 a month.</p>	<p>YEARS 9 – 30 As much as \$1,810 a month + \$317 estimated taxes and insurance. Estimated total \$1,170 to \$2,127 a month.</p>
-------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

SUMMARY

Loan Amount **\$216,000**
 Monthly Loan Payment **\$853.47**
 • Adjusts yearly starting in year 3.
 Monthly Taxes & Insurance..... **\$427**
 • Estimated. Could increase over time.
 Interest Rate **2.5% to start**
 • Adjusts yearly starting in year 3.
 • See details on back.

Closing Costs You Pay..... **\$10,060**
 • See details on back.
 Down Payment **\$24,000**

CAUTIONS

These features trigger higher or additional payments.
 Adjustable Interest Rate..... **As high as 10%**
 Increasing Monthly Payment ... **As high as \$1,810**
 Increasing Loan Amount **No**
 Balloon Payment **No**
 Prepayment Penalty **No**

COMPARISONS

Use these additional measures to compare this loan with others.
 In 5 Years **\$79,993**
 Amount you have paid
 \$19,761
 Amount of loan paid off
 APR..... **5.59%**
 • Expresses interest and costs over 30 years.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs

A	Origination Fee.	This fee cannot change. Includes <u> 0 </u> points (\$0)	\$2,000
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$300) and credit report (\$18) provided by lender-related companies: PGV Appraisers and KJT Credit Co. • Total cannot be higher than \$953 at closing.	\$866
		Government Charges	\$2,015
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$1,745
		Pest Inspection	\$90
		Homeowner's Insurance	\$637
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$650
		Home Warranty	\$550
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$649
		Prepaid Interest (15 days @ 2.5%, \$15/day)	\$225
F	Total Closing Costs	A + B + C + D + E	\$10,060
G	Credits from Lender or Seller		\$0
H	Amount of Total Closing Costs to be Financed		\$0
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$10,060

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM.**
After this time, the loan features and closing costs on this form may not be available.

Adjustable Interest Rate Information

Index	Prime
Margin	2.5%
Lifetime Maximum Rate	10%
Lifetime Minimum Rate	2.5%

Cap on Interest Rate Changes

At First Change	3%
At Subsequent Changes	3%

Change Frequency

First Change: 2 years from loan date
Subsequent Changes: Every year after first change

Round 1 – Loan Estimate design 2, ARM example D, page 1

POPLAR BANK

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@poplarbank.com
 NMLS ID# 01234567

LOAN ID# 1330172608
 APPLICANT Jane Johnson
 PROPERTY 456 Avenue A, Anytown, ST 12345
 LOAN TYPE 30 year adjustable rate
 PURPOSE Purchase
 PROGRAM Conventional

DATE May 18, 2011
 EXPIRES June 2, 2011 at 3:00 PM

Loan Estimate

PROJECTED PAYMENTS Payments you should expect to make.

<p>AT CLOSING \$34,060 estimated Will be adjusted for credits and deposits.</p>	<p>YEARS 1 – 2 \$840 a month + \$451 estimated taxes and insurance. Estimated total \$1,291 a month.</p>	<p>YEARS 3 – 8 As much as \$2,098 a month + \$451 estimated taxes and insurance. Estimated total \$1,357 to \$2,549 a month.</p>	<p>YEARS 9 – 30 As much as \$2,098 a month + \$341 estimated taxes and insurance. Estimated total \$1,247 to \$2,439 a month.</p>
-------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

SUMMARY

Loan Amount **\$216,000**
 Monthly Loan Payment **\$839.50**
 • Adjusts yearly starting in year 3.
 Monthly Taxes & Insurance..... **\$451**
 • Estimated. Could increase over time.
 Interest Rate **2.375% to start**
 • Adjusts yearly starting in year 3.
 • See details on back.

Closing Costs You Pay..... **\$10,060**
 • See details on back.
 Down Payment **\$24,000**

CAUTIONS

These features trigger higher or additional payments.
 Adjustable Interest Rate..... **As high as 12%**
 Increasing Monthly Payment ... **As high as \$2,098**
 Increasing Loan Amount **No**
 Balloon Payment **No**
 Prepayment Penalty **No**

COMPARISONS

Use these additional measures to compare this loan with others.
 In 5 Years **\$82,155**
 Amount you have paid
 \$17,688
 Amount of loan paid off
 APR..... **5.95%**
 • Expresses interest and costs over 30 years.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 2, ARM example D, page 2

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs			
A	Origination Fee.	This fee cannot change. Includes <u> 0 </u> points (\$0)	\$1,250
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$410) and credit report (\$10) provided by lender-related companies: PGV Appraisers and KJT Credit Co. • Total cannot be higher than \$1,045 at closing.	\$950
		Government Charges	\$2,015
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$2,048
		Pest Inspection	\$165
		Homeowner's Insurance	\$780
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$710
		Home Warranty	\$575
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$720
		Prepaid Interest (15 days @ 2.375%, \$14.25/day)	\$214
F	Total Closing Costs	A + B + C + D + E	\$10,060
G	Credits from Lender or Seller		\$0
H	Amount of Total Closing Costs to be Financed		\$0
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$10,060

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM.**
After this time, the loan features and closing costs on this form may not be available.

Adjustable Interest Rate Information

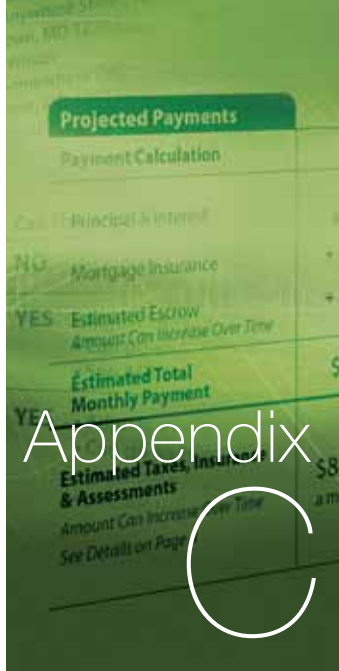
Index	Prime
Margin	3%
Lifetime Maximum Rate	12%
Lifetime Minimum Rate	3%

Cap on Interest Rate Changes

At First Change	3%
At Subsequent Changes	3%

Change Frequency

First Change: 2 years from loan date
Subsequent Changes: Every year after first change



Loan Estimates (Spanish) for Round 1 – Baltimore, MD

Round 1 – Loan Estimate design 1 (Spanish), fixed rate example A, page 1

BALSAM BANK

4321 Random Boulevard
Somecity, ST 54321

NÚMERO DE ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@balsambank.com
 NÚMERO DE ID NMLS 01234567

Estimación del préstamo

SOLICITANTE Maria Rodriguez
 PROPIEDAD 456 Avenue A, Anytown, ST 12345

FECHA 05/18/2011
 FECHA DE VENCIMIENTO 06/02/2011 a las 3:00 PM
 MONTO DEL PRÉSTAMO \$221.000
 TIPO DE PRÉSTAMO Tasa de interés fija a 30 años
 PROPÓSITO/PROGRAMA Compra/Convencional

Términos Principales del Préstamo

¿Pueden cambiar los términos principales del préstamo después del cierre?

Tasa de interés	5,125%	<input type="radio"/> NO	
Pago mensual del préstamo	\$1.203,33	<input type="radio"/> NO	
Impuestos y seguro mensuales	\$452	<input checked="" type="radio"/> SÍ	• Estimación. Podría aumentar con el tiempo.

Advertencias

¿Pueden las características del préstamo ocasionar pagos más altos o adicionales?

Aumento del monto del préstamo	<input type="radio"/> NO
Pago global	<input type="radio"/> NO
Multa por pago anticipado	<input type="radio"/> NO

Comparaciones

Utilice estas medidas adicionales para comparar este préstamo con otros.

Tasa porcentual anual	5,98% incluye los intereses y costos en un plazo de 30 años.
En 5 años	\$17.702 es el monto del préstamo que usted ha liquidado en 5 años después de pagar \$86.447.

Pagos Proyectoados

Pagos que usted va a efectuar.

EN EL CIERRE	AÑOS 1 - 9	AÑOS 10 - 30
\$4.167 Gastos de cierre que usted paga Véase la información detallada al dorso. + \$24.000 Depósito inicial Estos montos se ajustarán según los créditos y depósitos	\$1.655 al mes Incluye \$452 por concepto de impuestos y seguro estimados.	\$1.487 al mes Pago mensual total estimado. Incluye \$284 por concepto de impuestos y seguro estimados.

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 1 (Spanish), fixed rate example A, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados

A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$1.750
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 200) y el informe de crédito (\$15) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$743.	\$675
		Cargos del gobierno	\$2.000
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$1.672
		Inspección de plagas	\$100
		Seguro del propietario	\$437
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$455
		Garantía de la vivienda	\$250
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$723
		Intereses pagados por anticipado (15 días @ 5,125%, \$31,47/día)	\$472
F	Total de los gastos de cierre	A + B + C + D + E	\$9.167
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		\$5.000
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$4.167

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.

Round 1 – Loan Estimate design 1 (Spanish), fixed rate example B, page 1

BEECH BANK

4321 Random Boulevard
Somecity, ST 54321

NÚMERO DE ID DEL PRÉSTAMO 1330172608
AGENTE DE PRÉSTAMOS Juan García
TELÉFONO 555-123-4444
CORREO ELECTRÓNICO juangarcia@beechbank.com
NÚMERO DE ID NMLS 01234567

Estimación del préstamo

SOLICITANTE Maria Rodriguez
PROPIEDAD 456 Avenue A, Anytown, ST 12345

FECHA 05/18/2011
FECHA DE VENCIMIENTO 06/02/2011 a las 3:00 PM
MONTO DEL PRÉSTAMO \$221.000
TIPO DE PRÉSTAMO Tasa de interés fija a 30 años
PROPÓSITO/PROGRAMA Compra/Convencional

Términos Principales del Préstamo

¿Pueden cambiar los términos principales del préstamo después del cierre?

Tasa de interés	5%	<input type="radio"/> NO	
Pago mensual del préstamo	\$1.186,38	<input type="radio"/> NO	
Impuestos y seguro mensuales	\$461	<input checked="" type="radio"/> SÍ	• Estimación. Podría aumentar con el tiempo.

Advertencias

¿Pueden las características del préstamo ocasionar pagos más altos o adicionales?

Aumento del monto del préstamo	<input type="radio"/> NO	
Pago global	<input type="radio"/> NO	
Multa por pago anticipado	<input checked="" type="radio"/> SÍ	Hasta \$4.420 si vende su propiedad, refinancia o liquida el préstamo durante los primeros 3 años.

Comparaciones

Utilice estas medidas adicionales para comparar este préstamo con otros.

Tasa porcentual anual	5,68% incluye los intereses y costos en un plazo de 30 años.
En 5 años	\$18.059 es el monto del préstamo que usted ha liquidado en 5 años después de pagar \$81.263.

Pagos Projectados

Pagos que usted va a efectuar.

EN EL CIERRE	AÑOS 1 - 9	AÑOS 10 - 30
<p>\$4.167</p> <p>Gastos de cierre que usted paga Véase la información detallada al dorso.</p> <p>+ \$24.000</p> <p>Depósito inicial Estos montos se ajustarán según los créditos y depósitos</p>	<p>\$1.647 al mes</p> <p>Incluye \$461 por concepto de impuestos y seguro estimados.</p>	<p>\$1.479 al mes</p> <p>Pago mensual total estimado. Incluye \$293 por concepto de impuestos y seguro estimados.</p>

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 1 (Spanish), fixed rate example B, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados

A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$1.000
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 300) y el informe de crédito (\$18) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$1.052.	\$956
		Cargos del gobierno	\$2.000
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$1.898
		Inspección de plagas	\$125
		Seguro del propietario	\$490
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$530
		Garantía de la vivienda	\$325
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$749
		Intereses pagados por anticipado (15 días @ 5%, \$30,70/día)	\$461
F	Total de los gastos de cierre	A + B + C + D + E	\$9.167
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		\$5.000
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$4.167

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.

Round 1 – Loan Estimate design 1 (Spanish), ARM example C, page 1

FICUS BANK

4321 Random Boulevard
Somecity, ST 54321

NÚMERO DE ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@ficusbank.com
 NÚMERO DE ID NMLS 01234567

Estimación del préstamo

SOLICITANTE Maria Rodriguez
 PROPIEDAD 456 Avenue A, Anytown, ST 12345

FECHA 05/18/2011
 FECHA DE VENCIMIENTO 06/02/2011 a las 3:00 PM
 MONTO DEL PRÉSTAMO \$216.000
 TIPO DE PRÉSTAMO Tasa de interés ajustable a 30 años
 PROPÓSITO Compra
 PROGRAMA Convencional

Términos principales del préstamo

¿Pueden cambiar los términos principales del préstamo después del cierre?

Tasa de interés	2,5% inicial	SÍ →	<ul style="list-style-type: none"> • Puede aumentar hasta un 10% en el año 5. • Se ajusta anualmente a partir del año 3. • Véase la información detallada al dorso.
Pago mensual del préstamo	\$853,47	SÍ →	<ul style="list-style-type: none"> • Puede llegar a \$1.810. • Se ajusta anualmente a partir del año 3.
Impuestos y seguro mensuales	\$427	SÍ →	<ul style="list-style-type: none"> • Estimación. Podría aumentar con el tiempo.

Advertencias

¿Pueden las características del préstamo ocasionar pagos más altos o adicionales?

Aumento del monto del préstamo	NO
Pago global	NO
Multa por pago anticipado	NO

Comparaciones

Utilice estas medidas adicionales para comparar este préstamo con otros.

Tasa porcentual anual	5,59% incluye los intereses y costos en un plazo de 30 años.
En 5 años	\$19.761 es el monto del préstamo que usted ha liquidado en 5 años después de pagar \$79.993.

Pagos proyectados

Pagos que usted va a efectuar.

EN EL CIERRE	AÑOS 1 – 2	AÑOS 3 – 8	AÑOS 9 – 30
\$10.060	\$1.280 al mes	De \$1.280 a \$2.237 al mes	De \$1.170 a \$2.127 al mes
Gastos de cierre que usted paga Véase la información detallada al dorso.	Incluye \$427 por concepto de impuestos y seguro estimados.	Pago mensual total estimado. Incluye \$427 por concepto de impuestos y seguro estimados.	Pago mensual total estimado. Incluye \$317 por concepto de impuestos y seguro estimados.
+ \$24.000 Depósito inicial Estos montos se ajustarán según los créditos y depósitos			

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 1 (Spanish), ARM example C, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados

A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$2.000
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 300) y el informe de crédito (\$18) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$953.	\$866
		Cargos del gobierno	\$2.015
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$1.745
		Inspección de plagas	\$90
		Seguro del propietario	\$637
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$650
		Garantía de la vivienda	\$550
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$649
		Intereses pagados por anticipado (15 días @ 2,5%, \$15/día)	\$225
F	Total de los gastos de cierre	A + B + C + D + E	\$10.060
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		0
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$10.060

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

Información sobre la tasa de interés ajustable

Índice	Base
Margen	2,5%
Tasa de interés máxima	10%
Tasa de interés mínima	2,5%

Tope en los cambios de la tasa de interés

En el primer cambio	3%
En cambios posteriores	3%

Frecuencia de cambios

Primer cambio: 2 años a partir de la fecha del préstamo
Cambios posteriores: Cada año después del primer cambio

Round 1 – Loan Estimate design 1 (Spanish), ARM example C, page 1

FIR BANK

4321 Random Boulevard
Somecity, ST 54321

NÚMERO DE ID DEL PRÉSTAMO 1330172608
AGENTE DE PRÉSTAMOS Juan García
TELÉFONO 555-123-4444
CORREO ELECTRÓNICO juangarcia@firbank.com
NÚMERO DE ID NMLS 01234567

Estimación del préstamo

SOLICITANTE Maria Rodriguez
PROPIEDAD 456 Avenue A, Anytown, ST 12345

FECHA 05/18/2011
FECHA DE VENCIMIENTO 06/02/2011 a las 3:00 PM
MONTO DEL PRÉSTAMO \$216.000
TIPO DE PRÉSTAMO Tasa de interés ajustable a 30 años
PROPÓSITO Compra
PROGRAMA Convencional

Términos principales del préstamo

¿Pueden cambiar los términos principales del préstamo después del cierre?

Tasa de interés	2,375% inicial	SÍ →	<ul style="list-style-type: none"> Puede aumentar hasta un 12% en el año 6. Se ajusta anualmente a partir del año 3. Véase la información detallada al dorso.
Pago mensual del préstamo	\$839,50	SÍ →	<ul style="list-style-type: none"> Puede llegar a \$2.098. Se ajusta anualmente a partir del año 3.
Impuestos y seguro mensuales	\$451	SÍ →	<ul style="list-style-type: none"> Estimación. Podría aumentar con el tiempo.

Advertencias

¿Pueden las características del préstamo ocasionar pagos más altos o adicionales?

Aumento del monto del préstamo	NO
Pago global	NO
Multa por pago anticipado	NO

Comparaciones

Utilice estas medidas adicionales para comparar este préstamo con otros.

Tasa porcentual anual	5,95% incluye los intereses y costos en un plazo de 30 años.
En 5 años	\$17.688 es el monto del préstamo que usted ha liquidado en 5 años después de pagar \$82.155.

Pagos proyectados

Pagos que usted va a efectuar.

EN EL CIERRE	AÑOS 1 – 2	AÑOS 3 – 8	AÑOS 9 – 30
\$10.060	\$1.291 al mes	De \$1.357 a \$2.549 al mes	De \$1.247 a \$2.439 al mes
Gastos de cierre que usted paga Véase la información detallada al dorso.	Incluye \$451 por concepto de impuestos y seguro estimados.	Pago mensual total estimado. Incluye \$451 por concepto de impuestos y seguro estimados.	Pago mensual total estimado. Incluye \$341 por concepto de impuestos y seguro estimados.
+ \$24.000 Depósito inicial Estos montos se ajustarán según los créditos y depósitos			

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 1 (Spanish), ARM example C, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados

A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$1.250
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 300) y el informe de crédito (\$18) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$1.045.	\$950
		Cargos del gobierno	\$2.015
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$2.048
		Inspección de plagas	\$165
		Seguro del propietario	\$780
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$710
		Garantía de la vivienda	\$575
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$720
		Intereses pagados por anticipado (15 días @ 2,375%, \$14,25/día)	\$214
F	Total de los gastos de cierre	A + B + C + D + E	\$10.060
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		0
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$10.060

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

Información sobre la tasa de interés ajustable

Índice	Base
Margen	3%
Tasa de interés máxima	12%
Tasa de interés mínima	3%

Tope en los cambios de la tasa de interés

En el primer cambio	3%
En cambios posteriores	3%

Frecuencia de cambios

Primer cambio: 2 años a partir de la fecha del préstamo
Cambios posteriores: Cada año después del primer cambio

Round 1 – Loan Estimate design 2 (Spanish), fixed rate example A, page 1

LAUREL BANK

AGENTE DE PRÉSTAMOS Juan Garcia
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@laurelbank.com
 NÚMERO DE ID NMLS 01234567

NÚMERO DE ID DEL PRÉSTAMO 1330172608
 SOLICITANTE Maria Rodriguez
 PROPIEDAD 456 Avenue A, Anytown, ST 12345
 TIPO DE PRÉSTAMO Tasa de interés fija a 30 años
 PROPÓSITO Compra
 PROGRAMA Convencional
 FECHA May 18, 2011
 FECHA DE VENCIMIENTO June 2, 2011 at 3:00 PM

Estimación del préstamo

PAGOS PROYECTADOS Pagos que va a efectuar.

EN EL CIERRE

\$28.167 estimado

Se ajustará según los créditos y depósitos.

AÑOS 1 – 9

\$1.186 al mes

+ **\$461** por concepto de impuestos y seguro estimados.
 Total estimado **\$1.647** al mes.

AÑOS 10 – 30

\$1.186 al mes

+ **\$293** por concepto de impuestos y seguro estimados.
 Total estimado de **\$1.479** al mes.

RESUMEN

Monto del préstamo **\$221.000**
 Pago mensual del préstamo... **\$1.186,38**
 Impuestos y seguro mensuales **\$461**
 • Estimación. Podría aumentar con el tiempo.
 Tasa de interés **5%**
 Gastos de cierre que usted paga **\$4.167**
 • Véase la información detallada al dorso.
 Depósito inicial **\$24.000**

ADVERTENCIAS

Estas características ocasionan pagos más altos o adicionales.
 Tasa de interés ajustable **No**
 Aumento del pago mensual **No**
 Aumento del monto del préstamo **No**
 Pago global **No**
 Multa por pago anticipado **Hasta \$4.420**
 • Si vende su propiedad, refinancia o liquida el préstamo durante los primeros 3 años.

COMPARACIONES

Utilice estas medidas adicionales para comparar este préstamo con otros.
 En 5 años **\$81.263**
 Monto que usted ha pagado
\$18.059
 Monto del préstamo liquidado
 APR..... **5,68%**
 • Incluye los intereses y costos en un plazo de 30 años.

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 2 (Spanish), fixed rate example A, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados			
A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$1.000
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 300) y el informe de crédito (\$18) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$1.052.	\$956
		Cargos del gobierno	\$2.000
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$1.898
		Inspección de plagas	\$125
		Seguro del propietario	\$490
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$530
		Garantía de la vivienda	\$325
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$749
		Intereses pagados por anticipado (15 días @ 5%, \$30,70/día)	\$461
F	Total de los gastos de cierre	A + B + C + D + E	\$9.167
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		\$5.000
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$4.167

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.

Round 1 – Loan Estimate design 2 (Spanish), fixed rate example B, page 1

LILAC BANK

AGENTE DE PRÉSTAMOS Juan Garcia
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@lilacbank.com
 NÚMERO DE ID NMLS 01234567

NÚMERO DE ID DEL PRÉSTAMO 1330172608
 SOLICITANTE María Rodriguez
 PROPIEDAD 456 Avenue A, Anytown, ST 12345
 TIPO DE PRÉSTAMO Tasa de interés fija a 30 años
 PROPÓSITO Compra
 PROGRAMA Convencional

FECHA May 18, 2011
 FECHA DE VENCIMIENTO June 2, 2011 at 3:00 PM

Estimación del préstamo

PAGOS PROYECTADOS Pagos que va a efectuar.

EN EL CIERRE
\$28.167 estimado
 Se ajustará según los créditos y depósitos.

AÑOS 1 – 9
\$1.203 al mes
 + \$452 por concepto de impuestos y seguro estimados.
 Total estimado **\$1.655** al mes.

AÑOS 10 – 30
\$1.203 al mes
 + \$284 por concepto de impuestos y seguro estimados.
 Total estimado de **\$1.487** al mes.

RESUMEN

Monto del préstamo **\$221.000**
 Pago mensual del préstamo... **\$1.203,33**
 Impuestos y seguro mensuales **\$452**
 • Estimación. Podría aumentar con el tiempo.
 Tasa de interés **5,125%**

Gastos de cierre que usted paga **\$4.167**
 • Véase la información detallada al dorso.
 Depósito inicial **\$24.000**

ADVERTENCIAS

Estas características ocasionan pagos más altos o adicionales.
 Tasa de interés ajustable..... **No**
 Aumento del pago mensual..... **No**
 Aumento del monto del préstamo..... **No**
 Pago global **No**
 Multa por pago anticipado **No**

COMPARACIONES

Utilice estas medidas adicionales para comparar este préstamo con otros.
 En 5 años **\$86.447**
 Monto que usted ha pagado
\$17.702
 Monto del préstamo liquidado
 APR..... **5,98%**
 • Incluye los intereses y costos en un plazo de 30 años.

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 2 (Spanish), fixed rate example B, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados			
A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$1.750
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 200) y el informe de crédito (\$15) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$743.	\$675
		Cargos del gobierno	\$2.000
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$1.672
		Inspección de plagas	\$100
		Seguro del propietario	\$437
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$455
		Garantía de la vivienda	\$250
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$723
		Intereses pagados por anticipado (15 días @ 5,125%, \$31,47/día)	\$472
F	Total de los gastos de cierre	A + B + C + D + E	\$9.167
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		\$5.000
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$4.167

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.

Round 1 – Loan Estimate design 2 (Spanish), ARM example C, page 1

PECAN BANK

AGENTE DE PRÉSTAMOS Juan Garcia
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@pecanbank.com
 NÚMERO DE ID NMLS 01234567

NÚMERO DE ID DEL PRÉSTAMO 1330172608
 SOLICITANTE Maria Rodriguez
 PROPIEDAD 456 Avenue A, Anytown, ST 12345
 TIPO DE PRÉSTAMO Tasa de interés ajustable a 30 años
 PROPÓSITO Compra
 PROGRAMA Convencional

FECHA May 18, 2011
 FECHA DE VENCIMIENTO June 2, 2011 at 3:00 PM

Estimación del préstamo

PAGOS PROYECTADOS Pagos que va a efectuar.

<p>EN EL CIERRE \$34.060 estimado Se ajustará según los créditos y depósitos.</p>	<p>AÑOS 1 – 2 \$853 al mes + \$427 por concepto de impuestos y seguro estimados. Total estimado \$1.280 al mes.</p>	<p>AÑOS 3 – 8 \$1.810 al mes como máximo + \$427 por concepto de impuestos y seguro estimados. Total estimado de \$1.280 a \$2.237 al mes.</p>	<p>AÑOS 9 – 30 \$1.810 al mes como máximo + \$317 por concepto de impuestos y seguro estimados. Total estimado de \$1.170 a \$2.127 al mes.</p>
---------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

RESUMEN

Monto del préstamo	\$216.000
Pago mensual del préstamo...	\$853,47 • Se ajusta anualmente a partir del año 3.
Impuestos y seguro mensuales	\$427 • Estimación. Podría aumentar con el tiempo.
Tasa de interés	2,5% inicial • Se ajusta anualmente a partir del año 3. • Véase la información detallada al dorso.

Gastos de cierre que usted paga	\$10.060 • Véase la información detallada al dorso.
Depósito inicial	\$24.000

ADVERTENCIAS

Estas características ocasionan pagos más altos o adicionales.
 Tasa de interés ajustable..... **10% como máximo**
 Aumento del pago mensual..... **\$1.810 como máximo**
 Aumento del monto del préstamo..... **No**
 Pago global **No**
 Multa por pago anticipado **No**

COMPARACIONES

Utilice estas medidas adicionales para comparar este préstamo con otros.
 En 5 años **\$79.993**
 Monto que usted ha pagado **\$19.761**
 Monto del préstamo liquidado
 APR..... **5,59%**
 • Incluye los intereses y costos en un plazo de 30 años.

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 2 (Spanish), ARM example C, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados			
A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$2.000
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 300) y el informe de crédito (\$18) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$953.	\$866
		Cargos del gobierno	\$2.015
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$1.745
		Inspección de plagas	\$90
		Seguro del propietario	\$637
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$650
		Garantía de la vivienda	\$550
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$649
		Intereses pagados por anticipado (15 días @ 2,5%, \$15/día)	\$225
F	Total de los gastos de cierre	A + B + C + D + E	\$10.060
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		0
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$10.060

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

Información sobre la tasa de interés ajustable

Índice	Base
Margen	2,5%
Tasa de interés máxima	10%
Tasa de interés mínima	2,5%

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tope en los cambios de la tasa de interés

En el primer cambio	3%
En cambios posteriores	3%

Frecuencia de cambios

Primer cambio: 2 años a partir de la fecha del préstamo
Cambios posteriores: Cada año después del primer cambio

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.

Round 1 – Loan Estimate design 2 (Spanish), ARM example D, page 1

POPLAR BANK

AGENTE DE PRÉSTAMOS Juan Garcia
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@poplarbank.com
 NÚMERO DE ID NMLS 01234567

NÚMERO DE ID DEL PRÉSTAMO 1330172608
 SOLICITANTE Maria Rodriguez
 PROPIEDAD 456 Avenue A, Anytown, ST 12345
 TIPO DE PRÉSTAMO Tasa de interés ajustable a 30 años
 PROPÓSITO Compra
 PROGRAMA Convencional

FECHA May 18, 2011
 FECHA DE VENCIMIENTO June 2, 2011 at 3:00 PM

Estimación del préstamo

PAGOS PROYECTADOS Pagos que va a efectuar.

EN EL CIERRE

\$34.060 estimado

Se ajustará según los créditos y depósitos.

AÑOS 1 – 2

\$840 al mes

+ **\$451** por concepto de impuestos y seguro estimados.

Total estimado **\$1.291** al mes.

AÑOS 3 – 8

\$2.098 al mes como máximo

+ **\$451** por concepto de impuestos y seguro estimados.

Total estimado de **\$1.357 a \$2.549** al mes.

AÑOS 9 – 30

\$2.098 al mes como máximo

+ **\$341** por concepto de impuestos y seguro estimados.

Total estimado de **\$1.247 a \$2.439** al mes.

RESUMEN

Monto del préstamo **\$216.000**
 Pago mensual del préstamo... **\$839,50**
 • Se ajusta anualmente a partir del año 3.
 Impuestos y seguro mensuales **\$451**
 • Estimación. Podría aumentar con el tiempo.
 Tasa de interés **2,375% inicial**
 • Se ajusta anualmente a partir del año 3.
 • Véase la información detallada al dorso.

Gastos de cierre que usted paga **\$10.060**
 • Véase la información detallada al dorso.

Depósito inicial **\$24.000**

ADVERTENCIAS

Estas características ocasionan pagos más altos o adicionales.
 Tasa de interés ajustable **12% como máximo**
 Aumento del pago mensual **\$2.098 como máximo**
 Aumento del monto del préstamo **No**
 Pago global **No**
 Multa por pago anticipado **No**

COMPARACIONES

Utilice estas medidas adicionales para comparar este préstamo con otros.
 En 5 años **\$82.155**
 Monto que usted ha pagado
\$17.688
 Monto del préstamo liquidado
 APR..... **5,95%**
 • Incluye los intereses y costos en un plazo de 30 años.

Para más información y herramientas, visite www.consumerfinance.gov/futureurl

Round 1 – Loan Estimate design 2 (Spanish), ARM example D, page 2

Información detallada de la estimación del préstamo

Usted no tiene ninguna obligación de elegir este préstamo.
Compare este préstamo con otros y elija el que más le convenga.

NÚMERO DE ID DEL PRÉSTAMO 1330172608

Gastos de cierre estimados			
A	Costo de iniciación del préstamo.	Este costo no puede cambiar. Incluye <u> 0 </u> puntos (\$0)	\$1.250
B	Servicios y gastos obligatorios que usted no puede comparar.	Servicios requeridos por el prestamista • Estos servicios incluyen la tasación (\$ 410) y el informe de crédito (\$10) que realizan las compañías asociadas con el prestamista: SCR Appraisal and HBR Credit Inc. • El monto total al cierre no puede exceder \$1.045.	\$950
		Cargos del gobierno	\$2.015
C	Servicios obligatorios que usted puede comparar y contratar. Si usted elige otro proveedor, estos montos pueden variar.	Servicios de título de propiedad, seguro del título del prestamista, y agente a cargo de la operación de cierre	\$2.048
		Inspección de plagas	\$165
		Seguro del propietario	\$780
D	Servicios no obligatorios. Usted elige contratar estos servicios.	Seguro del título del propietario	\$710
		Garantía de la vivienda	\$575
E	Cargos que usted paga por anticipado en el cierre.	Cuenta de depósito en garantía, e impuestos de propiedad y evaluaciones pagados por anticipado	\$633
		Cuenta de depósito en garantía para el seguro	\$720
		Intereses pagados por anticipado (15 días @ 2,375%, \$14,25/día)	\$214
F	Total de los gastos de cierre	A + B + C + D + E	\$10.060
G	Créditos del prestamista o vendedor		0
H	Monto total de los gastos de cierre a financiar		0
I	MONTO ESTIMADO A PAGAR EN EL CIERRE (F - G - H)		\$10.060

¿Es obligatorio tener una cuenta de depósito en garantía?

- Sí, su pago mensual incluye los impuestos y seguro mensuales.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Esta estimación vence el **06/02/2011 a las 3:00 PM.** Después de esa fecha, las características del préstamo y gastos de cierre en este documento pueden no estar disponibles

¿Es obligatorio el seguro de hipoteca?

- Sí, este préstamo requiere seguro de hipoteca.
- NO, este préstamo no requiere seguro de hipoteca

Información sobre la tasa de interés ajustable

Índice	Base
Margen	3%
Tasa de interés máxima	12%
Tasa de interés mínima	3%

¿Nos va a pagar a nosotros?

- Sí, nosotros nos vamos a encargar del servicio de su préstamo hipotecario.
- NO, vamos a asignar, vender o transferir el servicio de su préstamo hipotecario.

Tope en los cambios de la tasa de interés

En el primer cambio	3%
En cambios posteriores	3%

Frecuencia de cambios

Primer cambio: 2 años a partir de la fecha del préstamo
Cambios posteriores: Cada año después del primer cambio

Tasación

Le vamos a entregar inmediatamente una copia gratuita de las tasaciones o valoraciones por escrito de la propiedad. Usted va a recibir la copia aunque el préstamo no se cierre.



Appendix

D

Loan Estimates (English) for Round 2 – Los Angeles, CA

Round 2 – Loan Estimate design 1, interest only example A, page 1

BALSAM CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
LOAN OFFICER Joe Smith
PHONE 555-123-4444
EMAIL joesmith@balsamcreditunion.com
NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
LOAN TERM 30 year
LOAN TYPE 5 Year Interest Only, Fixed Rate
PROGRAM Conventional
PURPOSE Purchase

Loan Terms		CAUTION?
Loan Amount	\$315,000	
Interest Rate	4.25%	NO
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$1,275.76 \$1,115.63 + \$160.13	YES → <ul style="list-style-type: none"> Increases to \$1,867 in year 6. Includes no principal until year 6.
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 5	YEARS 6 – 30
\$34,021	\$1,721 a month	\$2,312 a month
Cash Needed to Close See details on page 2	\$1,276 monthly loan payment + \$445 estimated taxes and insurance	Includes estimated taxes and insurance

Comparisons	Use these measures to rate this loan and compare with others.	
Estimated Closing Costs	\$11,572	See details on page 2.
Annual Percentage Rate (APR)	4.77%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$88,117 \$0	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 1, interest only example A, page 2

LOAN ID # 1330172608 PAGE 2

Loan Estimate Details

**You have no obligation to choose this loan.
Shop around to find the best loan for you.**

Payments at Closing

ESTIMATED CLOSING COSTS

A	Costs	Origination Fees. This fee cannot change. Includes <u>1</u> points (1%)	\$3,265
		You Cannot Shop for These Services	
		<input checked="" type="checkbox"/> Appraisal <input checked="" type="checkbox"/> Tax Service	
		<input checked="" type="checkbox"/> Flood Determination <input type="checkbox"/>	\$485
		You Can Shop for These Services	
		<input checked="" type="checkbox"/> Title Services \$3,462	
		<input checked="" type="checkbox"/> Pest Inspection \$125	
		<input checked="" type="checkbox"/> Survey \$65	
		<input checked="" type="checkbox"/> Owner's Title Insurance (not required) \$965	
		SUBTOTAL. Cannot exceed \$5,079. If you choose your own provider, our price does not apply for that service.	\$4,617
B	Prepaid Insurance, Property Tax, and Related Services	<input checked="" type="checkbox"/> Daily Interest (\$37.18 per day for 15 days) \$558	
		<input checked="" type="checkbox"/> Hazard Insurance \$537	
		<input type="checkbox"/> Property Tax	
		<input type="checkbox"/>	
		<input type="checkbox"/>	
		SUBTOTAL	\$1,095
C	Taxes and Recording Fees		\$2,110
D	Lender Credits		
E	Estimated Closing Costs (A + B + C - D)		\$11,572
ESCROW			
F	Reserves for Future Costs	Property Taxes \$712	
		Insurance <input checked="" type="checkbox"/> Mortgage <input checked="" type="checkbox"/> Hazard <input type="checkbox"/> Other \$499	
		Assessments <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/> Other	
		SUBTOTAL	\$1,211
ADDITIONAL FUNDS			
G	Contributions	a. Down Payment (minus any deposit) \$25,000	
		b. Borrower Contribution	
		c. Seller Contribution (\$3,762)	
		SUBTOTAL (a + b - c)	\$21,238
H	Total Closing Costs to be Financed		
Cash Needed to Close (E + F + G - H)			\$34,021

Escrow Account

- YES, your monthly payment includes monthly taxes and insurance. See section F above.
- NO, you must pay your taxes and insurance yourself.

Important Dates

Your interest rate and points can change unless you lock the rate.
All other estimated closing costs expire at 3:00 p.m. on **07/07/2011**.

Round 2 – Loan Estimate design 1, interest only example B, page 1

BEECH CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
 LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@beechcreditunion.com
 NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
 PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
 LOAN TERM 30 year
 LOAN TYPE 5 Year Interest Only, Fixed Rate
 PROGRAM Conventional
 PURPOSE Purchase

Loan Terms		CAUTION?
Loan Amount	\$315,000	
Interest Rate	4.875%	NO
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$1,439.82 \$1,279.69 + \$160.13	YES → • Increases to \$1,979 in year 6. • Includes no principal until year 6.
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 5	YEARS 6 – 30
\$25,454	\$1,838 a month	\$2,376 a month
Cash Needed to Close See details on page 2	\$1,440 monthly loan payment + \$398 estimated taxes and insurance	Includes estimated taxes and insurance

Comparisons	Use these measures to rate this loan and compare with others.	
Estimated Closing Costs	\$3,679	See details on page 2.
Annual Percentage Rate (APR)	5.40%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$90,068 \$0	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 1, interest only example B, page 2

LOAN ID # 1330172608 PAGE 2

Loan Estimate Details

**You have no obligation to choose this loan.
Shop around to find the best loan for you.**

Payments at Closing

ESTIMATED CLOSING COSTS

A	Costs	Origination Fees. This fee cannot change. Includes <u>0</u> points	\$2,477
		You Cannot Shop for These Services	
		<input checked="" type="checkbox"/> Appraisal <input checked="" type="checkbox"/> Tax Service	\$795
		<input type="checkbox"/> <input type="checkbox"/>	
		You Can Shop for These Services	
		<input checked="" type="checkbox"/> Owner's Title Insurance (not required) \$1,050	
		<input checked="" type="checkbox"/> Title Services \$4,557	
		<input checked="" type="checkbox"/> Inspection & Survey \$340	
		SUBTOTAL. Cannot exceed \$6,542. If you choose your own provider, our price does not apply for that service.	\$5,947
B	Prepaid Insurance, Property Tax, and Related Services	<input checked="" type="checkbox"/> Daily Interest (\$42.66 per day for 15 days) \$640	
		<input checked="" type="checkbox"/> Hazard Insurance \$250	
		<input type="checkbox"/> Property Tax	
		<input type="checkbox"/>	
		<input type="checkbox"/>	
		SUBTOTAL	\$890
C	Taxes and Recording Fees		\$2,070
D	Lender Credits		(\$8,500)
E	Estimated Closing Costs (A + B + C - D)		\$3,679

ESCROW

F	Reserves for Future Costs	Property Taxes	
		Insurance <input type="checkbox"/> Mortgage <input type="checkbox"/> Hazard <input type="checkbox"/> Other	
		Assessments <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/> Other	
		SUBTOTAL	

ADDITIONAL FUNDS

G	Contributions	a. Down Payment (minus any deposit) \$25,000	
		b. Borrower Contribution	
		c. Seller Contribution (\$3,225)	
		SUBTOTAL (a + b - c)	\$21,775

H	Total Closing Costs to be Financed		
Cash Needed to Close (E + F + G - H)			\$25,454

Escrow Account

- YES, your monthly payment includes monthly taxes and insurance. See section F above.
- NO, you must pay your taxes and insurance yourself.

Important Dates

Your interest rate and points can change unless you lock the rate.
All other estimated closing costs expire at 3:00 p.m. on **07/07/2011**.

Round 2 – Loan Estimate design 2, ARM example C, page 1

FICUS CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
LOAN OFFICER Joe Smith
PHONE 555-123-4444
EMAIL joesmith@ficuscreditunion.com
NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
LOAN TERM 30 year
LOAN TYPE 5/1 Adjustable Rate
PROGRAM Conventional
PURPOSE Purchase

Loan Terms		CAUTION?	
Loan Amount	\$315,000		
Interest Rate	2.75% for 5 years	YES →	<ul style="list-style-type: none"> • Can go as high as 8% in year 7. • Adjusts every year starting in year 6. • See details on page 2.
Monthly Loan Payment	\$1,446.10	YES →	<ul style="list-style-type: none"> • Can go as high as \$2,311. • Adjusts every year starting in year 6.
Principal and Interest	\$1,285.97		
Mortgage Insurance	+ \$160.13		
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments		Expect to make these payments.		
AT CLOSING	YEARS 1 – 5	YEAR 6	YEARS 7 – 30	
\$33,896	\$1,883 a month	\$2,703 if rate is 7.75%	\$2,748 if rate is 8%	
Cash Needed to Close See details on page 2	\$1,446 monthly loan payment + \$437 estimated taxes and insurance	\$1,919 if rate is 3% Includes estimated taxes and insurance	\$1,919 if rate is 3% Includes estimated taxes and insurance	

Comparisons		Use these measures to rate this loan and compare with others.
Estimated Closing Costs	\$11,448	See details on page 2.
Annual Percentage Rate (APR)	3.28%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$98,214 \$36,239	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

EVOLUTION OF THE INTEGRATED TILA/RESPA DISCLOSURES

Loan Estimate Details

**You have no obligation to choose this loan.
Shop around to find the best loan for you.**

Payments at Closing

ESTIMATED CLOSING COSTS

A	Costs	Origination Fees. This fee cannot change. Includes <u>1</u> points (1%)	\$3,295
		You Cannot Shop for These Services	
		<input checked="" type="checkbox"/> Appraisal	
		<input checked="" type="checkbox"/> Tax Service	
		<input type="checkbox"/>	\$480
		You Can Shop for These Services	
		<input checked="" type="checkbox"/> Owner's Title Insurance (not required)	\$950
		<input checked="" type="checkbox"/> Title Services	\$3,563
		<input checked="" type="checkbox"/> Inspections & Surveys	\$200
		<input type="checkbox"/>	
		SUBTOTAL. <i>Cannot exceed \$5,184. If you choose your own provider, our price does not apply for that service.</i>	\$4,713
B	Prepaid Insurance, Property Tax, and Related Services	<input checked="" type="checkbox"/> Daily Interest (\$24.06 per day for 15 days)	\$361
		<input checked="" type="checkbox"/> Hazard Insurance	\$489
		<input type="checkbox"/> Property Tax	
		<input type="checkbox"/>	
		<input type="checkbox"/>	
		SUBTOTAL	\$850
C	Taxes and Recording Fees		\$2,110
D	Lender Credits		
E	Estimated Closing Costs (A + B + C - D)		\$11,448
ESCROW			
F	Reserves for Future Costs	Property Taxes	\$712
		Insurance <input checked="" type="checkbox"/> Mortgage <input checked="" type="checkbox"/> Hazard <input type="checkbox"/> Other	\$483
		Assessments <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/> Other	
		SUBTOTAL	\$1,195
ADDITIONAL FUNDS			
G	Contributions	a. Down Payment (minus any deposit)	\$25,000
		b. Borrower Contribution	
		c. Seller Contribution	(\$3,747)
		SUBTOTAL (a + b - c)	\$21,253
H	Total Closing Costs to be Financed		
Cash Needed to Close (E + F + G - H)			\$33,896

Escrow Account

- YES, your monthly payment includes monthly taxes and insurance. See section F above.
- NO, you must pay your taxes and insurance yourself.

Important Dates

Your interest rate and points can change unless you lock the rate.
All other estimated closing costs expire at 3:00 p.m. on **07/07/2011**.

Adjustable Interest Rate Information

Index	LIBOR
Margin	2%
Maximum Interest Rate	8%
Minimum Interest Rate	3%
Limits on Interest Rate Changes	
At First Change	5%
At Subsequent Changes	2%
Change Frequency	
First Change:	Beginning of 61st month
Subsequent Changes:	Every 12th month after first change

Round 2 – Loan Estimate design 1, ARM example D, page 1

FIR CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
 LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@fircreditunion.com
 NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
 PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
 LOAN TERM 30 year
 LOAN TYPE 5/1 Adjustable Rate
 PROGRAM Conventional
 PURPOSE Purchase

Loan Terms	CAUTION?
Loan Amount	\$315,000
Interest Rate	3.5% for 5 years YES → • Can go as high as 10.5% in year 7. • Adjusts every year starting in year 6. • See details on page 2.
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$1,574.63 \$1,414.50 + \$160.13 YES → • Can go as high as \$2,819. • Adjusts every year starting in year 6.
Prepayment Penalty	NO
Balloon Payment	NO

Projected Payments	Expect to make these payments.		
AT CLOSING	YEARS 1 – 5	YEAR 6	YEARS 7 – 30
\$25,079 Cash Needed to Close See details on page 2	\$1,968 a month \$1,575 monthly loan payment + \$393 estimated taxes and insurance	\$2,829 if rate is 8.5% \$2,045 if rate is 4% Includes estimated taxes and insurance	\$3,212 if rate is 10.5% \$2,045 if rate is 4% Includes estimated taxes and insurance

Comparisons	Use these measures to rate this loan and compare with others.	
Estimated Closing Costs	\$3,254	See details on page 2.
Annual Percentage Rate (APR)	4.22%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$97,732 \$32,455	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Loan Estimate Details

**You have no obligation to choose this loan.
Shop around to find the best loan for you.**

Payments at Closing

ESTIMATED CLOSING COSTS

A	Costs	Origination Fees. This fee cannot change. Includes <u>0</u> points	\$2,655
		You Cannot Shop for These Services	
		<input checked="" type="checkbox"/> Appraisal <input checked="" type="checkbox"/> Tax Service	
		<input checked="" type="checkbox"/> Flood Determination <input type="checkbox"/>	\$835
		You Can Shop for These Services	
		<input checked="" type="checkbox"/> Owner's Title Insurance (not required) \$1,015	
		<input checked="" type="checkbox"/> Title Services \$4,700	
		<input checked="" type="checkbox"/> Inspections & Surveys \$305	
		SUBTOTAL. Cannot exceed \$6,622. If you choose your own provider, our price does not apply for that service.	\$6,020
B	Prepaid Insurance, Property Tax, and Related Services	<input checked="" type="checkbox"/> Daily Interest (\$30.63 per day for 15 days) \$459	
		<input checked="" type="checkbox"/> Hazard Insurance \$225	
		<input type="checkbox"/> Property Tax	
		<input type="checkbox"/>	
		<input type="checkbox"/>	
		SUBTOTAL	\$684
C	Taxes and Recording Fees		\$2,060
D	Lender Credits		(\$9,000)
E	Estimated Closing Costs (A + B + C - D)		\$3,254

ESCROW

F	Reserves for Future Costs	Property Taxes	
		Insurance <input type="checkbox"/> Mortgage <input type="checkbox"/> Hazard <input type="checkbox"/> Other	
		Assessments <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/> Other	
		SUBTOTAL	

ADDITIONAL FUNDS

G	Contributions	a. Down Payment (minus any deposit) \$25,000	
		b. Borrower Contribution	
		c. Seller Contribution (\$3,175)	
		SUBTOTAL (a + b - c)	\$21,825

H	Total Closing Costs to be Financed		
Cash Needed to Close (E + F + G - H)			\$25,079

Escrow Account

- YES, your monthly payment includes monthly taxes and insurance. See section F above.
- NO, you must pay your taxes and insurance yourself.

Important Dates

Your interest rate and points can change unless you lock the rate. All other estimated closing costs expire at 3:00 p.m. on **07/07/2011**.

Adjustable Interest Rate Information

Index	LIBOR
Margin	2.75%
Maximum Interest Rate	10.5%
Minimum Interest Rate	4%
Limits on Interest Rate Changes	
At First Change	5%
At Subsequent Changes	2%
Change Frequency	
First Change:	Beginning of 61st month
Subsequent Changes:	Every 12th month after first change

Round 2 – Loan Estimate design 2, interest only example A, page 1

LAUREL CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
 LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@laurelcreditunion.com
 NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
 PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
 LOAN TERM 30 year
 LOAN TYPE 5 Year Interest Only, Fixed Rate
 PROGRAM Conventional
 PURPOSE Purchase

Loan Terms	CAUTION?	
Loan Amount	\$315,000	
Interest Rate	4.25%	NO
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$1,275.76 \$1,115.63 + \$160.13	YES → • Increases to \$1,867 in year 6. • Includes no principal until year 6.
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 5	YEARS 6 – 30
\$34,021	\$1,721 a month	\$2,312 a month
Cash Needed to Close See details on page 2	\$1,276 monthly loan payment + \$445 estimated taxes and insurance	Includes estimated taxes and insurance

Comparisons	Use these measures to rate this loan and compare with others.	
Estimated Closing Costs	\$11,572	See details on page 2.
Annual Percentage Rate (APR)	4.77%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$88,117 \$0	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 2, interest only example A, page 2

Loan Estimate Details

You have no obligation to choose this loan. Shop around to find the best loan for you.

LOAN ID # 1330172608

Estimated Closing Costs

A	Origination Fee.	This fee cannot change. Includes <u>0</u> points (\$0)	\$2,000
B	Required services and costs you cannot shop for.	Services Required by the Lender • These services include appraisal (\$300) and credit report (\$18) provided by lender-related companies: SCR Appraisal and HBR Credit Inc. • Total cannot be higher than \$953 at closing.	\$866
		Government Charges	\$2,015
C	Required services you can shop for. If you choose another provider, these amounts may vary.	Title Services, Lender's Title Insurance, and Settlement Agent	\$1,745
		Pest Inspection	\$90
		Homeowner's Insurance	\$637
D	Non-required services. You choose to shop for and purchase these services.	Owner's Title Insurance	\$650
		Home Warranty	\$550
E	Advance charges you pay at closing.	Escrow and prepaid property taxes and assessments	\$633
		Escrow for insurance	\$649
		Prepaid Interest (15 days @ 2.5%, \$15/day)	\$225
F	Total Closing Costs	A + B + C + D + E	\$10,060
G	Credits from Lender or Seller		0
H	Amount of Total Closing Costs to be Financed		0
I	ESTIMATED AMOUNT YOU WILL PAY AT CLOSING (F - G - H)		\$10,060

Is an Escrow Account Required?

- YES, your monthly payment includes monthly taxes and insurance.
- NO, you must pay your taxes and insurance yourself.

Important Dates

This estimate expires on **06/02/2011 at 3:00 PM.**
 After this time, the loan features and closing costs on this form may not be available.

Is Mortgage Insurance Required?

- YES, this loan requires mortgage insurance.
- NO, this loan does not require mortgage insurance.

Adjustable Interest Rate Information

Index	Prime
Margin	2.5%
Lifetime Maximum Rate	10%
Lifetime Minimum Rate	2.5%

Will You Make Your Payments to Us?

- YES, we intend to service your loan.
- NO, we intend to assign, sell, or transfer servicing of your loan.

Cap on Interest Rate Changes

At First Change	3%
At Subsequent Changes	3%

Change Frequency

First Change: 2 years from loan date
Subsequent Changes: Every year after first change

Appraisal

We will promptly give you a free copy of any written property appraisals or valuations. You will receive the copy even if the loan does not close.

Round 2 – Loan Estimate design 2, interest only example B, page 1

LILAC CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
 LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@lilaccreditunion.com
 NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
 PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
 LOAN TERM 30 year
 LOAN TYPE 5 Year Interest Only, Fixed Rate
 PROGRAM Conventional
 PURPOSE Purchase

Loan Terms	CAUTION?	
Loan Amount	\$315,000	
Interest Rate	4.875%	NO
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$1,439.82 \$1,279.69 + \$160.13	YES → • Increases to \$1,979 in year 6. • Includes no principal until year 6.
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 5	YEARS 6 – 30
\$25,454	\$1,838 a month	\$2,376 a month
Cash Needed to Close See details on page 2	\$1,440 monthly loan payment + \$398 estimated taxes and insurance	Includes estimated taxes and insurance

Comparisons	Use these measures to rate this loan and compare with others.	
Estimated Closing Costs	\$3,679	See details on page 2.
Annual Percentage Rate (APR)	5.40%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$90,068 \$0	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 2, interest only example B, page 2

LOAN ID # 1330172608 PAGE 2

Loan Estimate Details

*You have no obligation to choose this loan.
Shop around to find the best loan for you.*

Costs and Taxes

A. LOAN FEES	
Point(s) <u>0</u> %	
Loan Origination Fee	\$1,061
Underwriting Fee	\$927
Verification Fee	\$489
Appraisal Fee	\$685
Tax Service Fee	\$110
Subtotal. <i>This subtotal cannot change.</i>	\$3,272
B. TAXES AND OTHER GOVERNMENT FEES	
Transfer Taxes	\$1,960
Other Taxes and Fees	\$110
Subtotal	\$2,070
C. ITEMS PAID IN ADVANCE	
Daily Interest (\$42.66 per day for 15 days)	\$640
Property Taxes	
Mortgage Insurance Premium	
Hazard Insurance Premium	\$250
Flood Insurance	
Estimated Subtotal	\$890
D. ESCROW FOR FUTURE BILLS	
Tax & Assessment ___ mo. at ___ per month	
Mortgage Insurance ___ mo. at ___ per month	
Hazard Insurance ___ mo. at ___ per month	
Flood Insurance	
Estimated Subtotal	

Escrow Account

- YES, your monthly payment includes monthly taxes and insurance. See section D above.
- NO, you must pay your taxes and insurance yourself.

Important Dates

Your interest rate and points can change unless you lock the rate.
All other estimated closing costs expire at 3:00 p.m. on **07/07/2011**.

Services You May Shop For

Our price for the services you may shop for (E + F) cannot exceed \$6,542. If you choose your own provider, our price does not apply for that service.

E. TITLE FEES	
Closing or Settlement Agent Fee	\$726
Lender's Title Policy	\$500
Title Examination	\$1,369
Title Binder	\$747
Abstract of Title Search	\$1,215
Estimated Subtotal	\$4,557
F. OTHER COSTS	
Survey Fee	\$125
Pest Inspection Fee	\$215
Owner's Title Policy (not required)	\$1,050
Estimated Subtotal	\$1,390

Total Estimated Funds Needed to Close

Costs (A + B + C + E + F)	\$12,179
Lender Credits	-\$8,500
Estimated Closing Costs	\$3,679
Escrow for Future Bills (D)	
Down Payment or Borrower Contribution	\$25,000
Seller Credits	-\$3,225
Total Closing Costs to be Financed	- 0
Cash Needed to Close	\$25,454

Round 2 – Loan Estimate design 2, ARM example C, page 1

PECAN CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
 LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@pecancreditunion.com
 NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
 PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
 LOAN TERM 30 year
 LOAN TYPE 5/1 Adjustable Rate
 PROGRAM Conventional
 PURPOSE Purchase

Loan Terms	CAUTION?
Loan Amount	\$315,000
Interest Rate	2.75% for 5 years YES → • Can go as high as 8% in year 7. • Adjusts every year starting in year 6. • See details on page 2.
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$1,446.10 \$1,285.97 + \$160.13 YES → • Can go as high as \$2,311. • Adjusts every year starting in year 6.
Prepayment Penalty	NO
Balloon Payment	NO

Projected Payments	Expect to make these payments.		
AT CLOSING	YEARS 1 – 5	YEAR 6	YEARS 7 – 30
\$33,896 Cash Needed to Close See details on page 2	\$1,883 a month \$1,446 monthly loan payment + \$437 estimated taxes and insurance	\$2,703 if rate is 7.75% \$1,919 if rate is 3% Includes estimated taxes and insurance	\$2,748 if rate is 8% \$1,919 if rate is 3% Includes estimated taxes and insurance

Comparisons	Use these measures to rate this loan and compare with others.	
Estimated Closing Costs	\$11,448	See details on page 2.
Annual Percentage Rate (APR)	3.28%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$98,214 \$36,239	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 2, ARM example C, page 2

LOAN ID # 1330172608 PAGE 2

Loan Estimate Details

**You have no obligation to choose this loan.
Shop around to find the best loan for you.**

Costs and Taxes

A. LOAN FEES		
Point(s) <u>1</u> %		\$3,150
Fees to Originators		\$20
Appraisal		\$425
Tax Service		\$55
Document Preparation Fee		\$95
Flood Determination		\$30
Subtotal. <i>This subtotal cannot change.</i>		\$3,775
B. TAXES AND OTHER GOVERNMENT FEES		
Transfer Taxes		\$1,960
Other Taxes and Fees		\$150
Subtotal		\$2,110
C. ITEMS PAID IN ADVANCE		
Daily Interest (\$24.06 per day for 15 days)		\$361
Property Taxes		
Mortgage Insurance Premium		
Hazard Insurance Premium		\$489
Flood Insurance		
Estimated Subtotal		\$850
D. ESCROW FOR FUTURE BILLS		
Tax & Assessment	2 mo. at \$356 per month	\$712
Mortgage Insurance	2 mo. at \$160 per month	\$320
Hazard Insurance	2 mo. at \$81.50 per month	\$163
Flood Insurance		
Estimated Subtotal		\$1,195

Escrow Account

- YES, your monthly payment includes monthly taxes and insurance. See section D above.
- NO, you must pay your taxes and insurance yourself.

Important Dates

Your interest rate and points can change unless you lock the rate.
All other estimated closing costs expire at 3:00 p.m. on **07/07/2011**.

Services You May Shop For

Our price for the services you may shop for (E + F) cannot exceed \$5,184. If you choose your own provider, our price does not apply for that service.

E. TITLE FEES	
Closing or Settlement Agent Fee	\$626
Lender's Title Policy	\$500
Title Search	\$1,437
Binder	\$200
Title Commitment Letter	\$800
Estimated Subtotal	\$3,563
F. OTHER COSTS	
Survey Fee	\$75
Pest Inspection Fee	\$125
Owner's Title Policy (not required)	\$950
Estimated Subtotal	\$1,150

Total Estimated Funds Needed to Close

Costs (A + B + C + E + F)	\$11,448
Lender Credits	- 0
Estimated Closing Costs	\$11,448
Escrow for Future Bills (D)	\$1,195
Down Payment or Borrower Contribution	\$25,000
Seller Credits	- \$3,747
Total Closing Costs to be Financed	- 0
Cash Needed to Close	\$33,896

Adjustable Interest Rate Information

Index	LIBOR
Margin	2%
Maximum Interest Rate	8%
Minimum Interest Rate	3%
Limits on Interest Rate Changes	
At First Change	5%
At Subsequent Changes	2%
Change Frequency	
First Change: Beginning of 61st month	
Subsequent Changes: Every 12th month after first change	

Round 2 – Loan Estimate design 2, ARM example D, page 1

POPLAR CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

LOAN ID # 1330172608
 LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@poplarcreditunion.com
 NMLS ID# 01234567

Loan Estimate

APPLICANTS James White
 Jane Johnson
 PROPERTY 456 Avenue A
 Anytown, CA 12345

DATE ISSUED 06/22/2011
 LOAN TERM 30 year
 LOAN TYPE 5/1 Adjustable Rate
 PROGRAM Conventional
 PURPOSE Purchase

Loan Terms	CAUTION?	
Loan Amount	\$315,000	
Interest Rate	3.5% for 5 years	YES → • Can go as high as 10.5% in year 7. • Adjusts every year starting in year 6. • See details on page 2.
Monthly Loan Payment	\$1,574.63	YES → • Can go as high as \$2,819. • Adjusts every year starting in year 6.
Principal and Interest Mortgage Insurance	\$1,414.50 + \$160.13	
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.		
AT CLOSING	YEARS 1 – 5	YEAR 6	YEARS 7 – 30
\$25,079	\$1,968 a month	\$2,829 if rate is 8.5%	\$3,212 if rate is 10.5%
Cash Needed to Close See details on page 2	\$1,575 monthly loan payment + \$393 estimated taxes and insurance	\$2,045 if rate is 4% Includes estimated taxes and insurance	\$2,045 if rate is 4% Includes estimated taxes and insurance

Comparisons	Use these measures to rate this loan and compare with others.	
Estimated Closing Costs	\$3,254	See details on page 2.
Annual Percentage Rate (APR)	4.22%	Your interest combined with fees over 30 years as a yearly rate.
In 5 Years	\$97,732 \$32,455	Total you have paid in principal, interest, mortgage insurance, and fees. Principal you have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 2, ARM example D, page 2

LOAN ID # 1330172608 PAGE 2

Loan Estimate Details

**You have no obligation to choose this loan.
Shop around to find the best loan for you.**

Costs and Taxes

A. LOAN FEES

Point(s) <u>0</u> %	
Fees to Originators	\$1,155
Underwriting Fee	\$900
Processing Fee	\$600
Appraisal Fee	\$675
Tax & Flood Determination	\$160
Subtotal. This subtotal cannot change.	\$3,490

B. TAXES AND OTHER GOVERNMENT FEES

Transfer Taxes	\$1,960
Other Taxes and Fees	\$100
Subtotal	\$2,060

C. ITEMS PAID IN ADVANCE

Daily Interest (\$30.63 per day for 15 days)	\$459
Property Taxes	
Mortgage Insurance Premium	
Hazard Insurance Premium	\$225
Flood Insurance	
Estimated Subtotal	\$684

D. ESCROW FOR FUTURE BILLS

Tax & Assessment	<u> </u> mo. at <u> </u> per month
Mortgage Insurance	<u> </u> mo. at <u> </u> per month
Hazard Insurance	<u> </u> mo. at <u> </u> per month
Flood Insurance	
Estimated Subtotal	

Escrow Account

- YES, your monthly payment includes monthly taxes and insurance. See section D above.
- NO, you must pay your taxes and insurance yourself.

Important Dates

Your interest rate and points can change unless you lock the rate.
All other estimated closing costs expire at 3:00 p.m. on **07/07/2011**.

Services You May Shop For

Our price for the services you may shop for (E + F) cannot exceed \$6,622. If you choose your own provider, our price does not apply for that service.

E. TITLE FEES

Closing or Settlement Agent Fee	\$873
Lender's Title Policy	\$650
Abstract of Title Search	\$800
Title Examination	\$1,377
Title Commitment Letter	\$1,000

Estimated Subtotal **\$4,700**

F. OTHER COSTS

Survey Fee	\$105
Pest Inspection Fee	\$200
Owner's Title Policy (not required)	\$1,015

Estimated Subtotal **\$1,320**

Total Estimated Funds Needed to Close

Costs (A + B + C + E + F)	\$12,254
Lender Credits	-\$9,000
Estimated Closing Costs	\$3,254

Escrow for Future Bills (D)	
Down Payment or Borrower Contribution	\$25,000
Seller Credits	-\$3,175
Total Closing Costs to be Financed	- 0

Cash Needed to Close **\$25,079**

Adjustable Interest Rate Information

Index	LIBOR
Margin	2.75%
Maximum Interest Rate	10.5%
Minimum Interest Rate	4%

Limits on Interest Rate Changes

At First Change	5%
At Subsequent Changes	2%

Change Frequency

First Change: Beginning of 61st month	
Subsequent Changes: Every 12th month after first change	



Appendix

Loan Estimates (Spanish) for Round 2 – Los Angeles, CA

Round 2 – Loan Estimate design 1 (Spanish), interest only example A, page 1

BALSAM CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@balsamcreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodríguez
 María Rodríguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Primeros 5 años sólo interés, tasa fija
 PROGRAMA Convencional
 PROPÓSITO Compra

Términos del préstamo		¿ADVERTENCIA?
Cantidad del préstamo	\$315,000	
Tasa de interés	4.25%	NO
Pago mensual del préstamo Principal e interés Seguro hipotecario	\$1,275.76 \$1,115.63 + \$160.13	SÍ → • Aumenta a \$1,867 en el año 6. • No incluye el principal hasta el año 6.
Multa por pago adelantado		NO
Pago Balloon		NO

Pagos proyectados	Usted va a tener que hacer estos pagos.	
EN EL CIERRE	AÑOS 1 - 5	AÑOS 6 - 30
\$34,021	\$1,721 al mes	\$2,312 al mes
Dinero en efectivo que necesita para el cierre Mire los detalles en la página 2	\$1,276 pago mensual del préstamo + \$445 impuestos y seguro estimados	Incluye impuestos y seguro estimados

Comparaciones	Utilice estas medidas para evaluar este préstamo y compararlo con otros.	
Gastos de cierre estimados	\$11,572	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	4.77%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$88,117	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y gastos.
	\$0	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 1 (Spanish), interest only example A, page 2

Detalles sobre el estimado del préstamo

NÚMERO ID DEL PRÉSTAMO 1330172608 PAGE 2

Usted no tiene ninguna obligación de elegir este préstamo. Compare este préstamo con otros y elija el que más le convenga.

Pagos a efectuar en el cierre

GASTOS DE CIERRE ESTIMADOS

A	Gastos	Gastos de originación del préstamo. Estos gastos no van a cambiar. Incluye <u>1</u> puntos (1%)	\$3,265
		Estos servicios no son negociables. <input checked="" type="checkbox"/> Tasación de la propiedad <input checked="" type="checkbox"/> Servicio de impuestos <input checked="" type="checkbox"/> Determinación de inundaciones <input type="checkbox"/>	\$485
		Estos servicios son negociables <input checked="" type="checkbox"/> Servicios de título de propiedad \$3,462 <input checked="" type="checkbox"/> Inspección de plagas \$125 <input checked="" type="checkbox"/> Estudio topográfico \$65 <input checked="" type="checkbox"/> Seguro del título del propietario (no es obligatorio) \$965	
		SUBTOTAL. No puede exceder \$5,079. Si usted elige a otro proveedor, nuestro precio no se aplica para ese servicio.	\$4,617
B	Seguro pagado por adelantado, impuestos sobre la propiedad y servicios relacionados	<input checked="" type="checkbox"/> Interés diario (\$37.18 por día durante 15 días) \$558 <input checked="" type="checkbox"/> Seguro contra riesgos \$537 <input type="checkbox"/> Impuestos sobre la propiedad <input type="checkbox"/>	
		SUBTOTAL	\$1,095
C	Impuestos y tasas de registro de la propiedad		\$2,110
D	Créditos del prestamista		
E	Gastos de cierre estimados (A + B + C - D)		\$11,572
CUENTA DE GARANTÍA			
F	Reservas para futuros gastos	Impuestos sobre la propiedad \$712 Seguro <input checked="" type="checkbox"/> Hipoteca <input checked="" type="checkbox"/> Riesgos <input type="checkbox"/> Otros \$499 Evaluaciones <input type="checkbox"/> HOA/Condominio/Cooperativa <input type="checkbox"/> Otros	
		SUBTOTAL	\$1,211
FONDOS ADICIONALES			
G	Contribuciones	a. Pago inicial (menos cualquier depósito) \$25,000 b. Contribución del prestatario c. Contribución del vendedor (restar esta cantidad) (\$3,762)	
		SUBTOTAL (a + b - c)	\$21,238
H	Total de los gastos de cierre a financiar		
	Dinero en efectivo que necesita para el cierre (E + F + G - H)		\$34,021

Cuenta de reserva

- Sí, su pago mensual incluye los impuestos y seguro mensuales. Mire la sección F arriba.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Su tasa de interés y puntos pueden cambiar a no ser que usted confirme la tasa de interés. Todos los demás gastos de cierre vencen a las 3:00 p.m. del 07/07/2011.

Round 2 – Loan Estimate design 1 (Spanish), interest only example B, page 1

BEECH CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@beechcreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodríguez
 María Rodríguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Primeros 5 años sólo interés, tasa fija
 PROGRAMA Convencional
 PROPÓSITO Compra

Términos del préstamo

¿ADVERTENCIA?

Cantidad del préstamo	\$315,000	
Tasa de interés	4.875%	NO
Pago mensual del préstamo Principal e interés Seguro hipotecario	\$1,439.82 \$1,279.69 + \$160.13	SÍ → • Aumenta a \$1,979 en el año 6. • No incluye el principal hasta el año 6.
Multa por pago adelantado		NO
Pago Balloon		NO

Pagos proyectados

Usted va a tener que hacer estos pagos.

EN EL CIERRE	AÑOS 1 - 5	AÑOS 6 - 30
\$25,454	\$1,838 al mes	\$2,376 al mes
Dinero en efectivo que necesita para el cierre Mire los detalles en la página 2	\$1,440 pago mensual del préstamo + \$398 impuestos y seguro estimados	Incluye impuestos y seguro estimados

Comparaciones

Utilice estas medidas para evaluar este préstamo y compararlo con otros.

Gastos de cierre estimados	\$3,679	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	5.40%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$90,068	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y gastos.
	\$0	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 2 (Spanish), ARM example C, page 1

FICUS CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan Garcia
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@ficuscreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodriguez
 María Rodriguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Tasa de interés ajustable 5/1
 PROGRAMA Convencional
 PROPÓSITO Compra

Términos del préstamo		¿ADVERTENCIA?	
Cantidad del préstamo	\$315,000		
Tasa de interés	2.75% durante los primeros 5 años	SI	<ul style="list-style-type: none"> Puede augmentar hasta un 8% en el año 7. Se ajusta anualmente a partir del año 6. Mire los detalles en la página 2.
Pago mensual del préstamo	\$1,446.10	SI	<ul style="list-style-type: none"> Puede augmentar hasta \$2,311. Se ajusta anualmente a partir del año 6.
Principal e interés	\$1,285.97		
Seguro hipotecario	+ \$160.13		
Multa por pago adelantado		NO	
Pago Balloon		NO	

Pagos proyectados	Usted va a tener que hacer estos pagos.		
EN EL CIERRE	AÑOS 1 – 5	AÑO 6	AÑOS 7 – 30
\$33,896	\$1,883 al mes	\$2,703 si la tasa de interés es 7.75%	\$2,748 si la tasa de interés es 8%
Dinero en efectivo que necesita para el cierre	\$1,446 pago mensual del préstamo	\$1,919 si la tasa de interés es 3%	\$1,919 si la tasa de interés es 3%
Mire los detalles en la página 2.	+ \$437 impuestos y seguro estimados	Incluye impuestos y seguro estimados	Incluye impuestos y seguro estimados

Comparaciones	Utilice estas medidas para evaluar este préstamo y compararlo con otros.	
Gastos de cierre estimados	\$11,448	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	3.28%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$98,214	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y comisiones.
	\$36,239	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 2 (Spanish), ARM example C, page 2

Detalles sobre el estimado del préstamo

NÚMERO ID DEL PRÉSTAMO 1330172608 PÁGINA 2

Usted no tiene ninguna obligación de elegir este préstamo. Compare este préstamo con otros y elija el que más le convenga.

Pagos a efectuar en el cierre

GASTOS DE CIERRE ESTIMADOS

A	Gastos	Gastos de originación del préstamo. Estos gastos no van a cambiar. Incluye <u>1</u> puntos (1%)	\$3,295
		Estos servicios no son negociables. <input checked="" type="checkbox"/> Tasación de la propiedad <input checked="" type="checkbox"/> Servicio de impuestos <input type="checkbox"/>	\$480
		Estos servicios son negociables <input checked="" type="checkbox"/> Seguro del título del propietario (no es obligatorio) \$950 <input checked="" type="checkbox"/> Servicios de título de propiedad \$3,563 <input checked="" type="checkbox"/> Inspecciones y estudio topográfico \$200	
		SUBTOTAL. No puede exceder \$5,184. Si usted elige a otro proveedor, nuestro precio no se aplica para ese servicio.	\$4,713
B	Seguro pagado por adelantado, impuestos sobre la propiedad y servicios relacionados	<input checked="" type="checkbox"/> Interés diario (\$24.06 por día durante 15 días) \$361 <input checked="" type="checkbox"/> Seguro contra riesgos \$489 <input type="checkbox"/> Impuestos sobre la propiedad <input type="checkbox"/>	
		SUBTOTAL	\$850
C	Impuestos y tasas de registro de la propiedad		\$2,110
D	Créditos del prestamista		
E	Gastos de cierre estimados (A + B + C - D)		\$11,448
CUENTA DE GARANTÍA			
F	Reservas para futuros gastos	Impuestos sobre la propiedad \$712 Seguro <input checked="" type="checkbox"/> Hipoteca <input checked="" type="checkbox"/> Riesgos <input type="checkbox"/> Otros \$483 Evaluaciones <input type="checkbox"/> HOA/Condominio/Cooperativa <input type="checkbox"/> Otros	
		SUBTOTAL	\$1,195
FONDOS ADICIONALES			
G	Contribuciones	a. Pago inicial (menos cualquier depósito) \$25,000 b. Contribución del prestatario c. Contribución del vendedor (restar esta cantidad) (\$3,747)	
		SUBTOTAL (a + b - c)	\$21,253
H	Total de los gastos de cierre a financiar		
	Dinero en efectivo que necesita para el cierre (E + F + G - H)		\$33,896

Cuenta de reserva

- Sí, su pago mensual incluye los impuestos y seguro mensuales. Mire la sección F arriba.
 NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Su tasa de interés y puntos pueden cambiar a no ser que usted confirme la tasa de interés. Todos los demás gastos de cierre vencen a las 3:00 p.m. del **07/07/2011**.

Información sobre la tasa de interés ajustable

Índice	LIBOR
Margen	2%
Tasa de interés máxima	8%
Tasa de interés mínima	3%
Límites a los ajustes de la tasa de interés	
Primer ajuste	5%
Ajustes posteriores	2%
Frecuencia de ajustes	
Primer ajuste:	A partir del mes 61
Ajustes posteriores:	Cada 12 meses después del primer ajuste

Round 2 – Loan Estimate design 2 (Spanish), ARM example D, page 1

FIR CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 OFICIAL DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@fircreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodríguez
 María Rodríguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Tasa de interés ajustable 5/1
 PROGRAMA Convencional
 PROPOSITO Compra

Términos del préstamo		¿ADVERTENCIA?	
Cantidad del préstamo	\$315,000		
Tasa de interés	3.5% durante los primeros 5 años	SI	<ul style="list-style-type: none"> Puede augmentar hasta un 10.5% en el año 7. Se ajusta anualmente a partir del año 6. Mire los detalles en la página 2.
Pago mensual del préstamo	\$1,574.63	SI	<ul style="list-style-type: none"> Puede augmentar hasta \$2,819. Se ajusta anualmente a partir del año 6.
Principal e interés	\$1,414.50		
Seguro hipotecario	+ \$160.13		
Multa por pago adelantado		NO	
Pago Balloon		NO	

Pagos proyectados	Usted va a tener que hacer estos pagos.		
EN EL CIERRE	AÑOS 1 – 5	AÑO 6	AÑOS 7 – 30
\$25,079	\$1,968 al mes	\$2,829 si la tasa de interés es 8.5%	\$3,212 si la tasa de interés es 10.5%
Dinero en efectivo que necesita para el cierre Mire los detalles en la página 2	\$1,575 pago mensual del préstamo + \$393 impuestos y seguro estimados	\$2,045 si la tasa de interés es 4% Incluye impuestos y seguro estimados	\$2,045 si la tasa de interés es 4% Incluye impuestos y seguro estimados

Comparaciones	Utilice estas medidas para evaluar este préstamo y compararlo con otros.	
Gastos de cierre estimados	\$3,254	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	4.22%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$97,732	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y gastos.
	\$32,455	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Round 2 – Loan Estimate design 2 (Spanish), ARM example D, page 2

Detalles sobre el estimado del préstamo

NÚMERO ID DEL PRÉSTAMO 1330172608 PÁGINA 2

Usted no tiene ninguna obligación de elegir este préstamo. Compare este préstamo con otros y elija el que más le convenga.

Pagos a efectuar en el cierre

GASTOS DE CIERRE ESTIMADOS

A	Gastos	Gastos de originación del préstamo. Estos gastos no van a cambiar. Incluye <u>0</u> puntos	\$2,655
		Estos servicios no son negociables. <input checked="" type="checkbox"/> Tasación de la propiedad <input checked="" type="checkbox"/> Servicio de impuestos <input checked="" type="checkbox"/> Determinación de inundaciones	\$835
		Estos servicios son negociables <input checked="" type="checkbox"/> Seguro del título del propietario (no es obligatorio) \$1,015 <input checked="" type="checkbox"/> Servicios de título de propiedad \$4,700 <input checked="" type="checkbox"/> Inspecciones y estudio topográfico \$305	
		SUBTOTAL. No puede exceder \$6,622. Si usted elige a otro proveedor, nuestro precio no se aplica para ese servicio.	\$6,020
B	Seguro pagado por adelantado, impuestos sobre la propiedad y servicios relacionados	<input checked="" type="checkbox"/> Interés diario (\$30.63 por día durante 15 días) \$459 <input checked="" type="checkbox"/> Seguro contra riesgos \$225 <input type="checkbox"/> Impuestos sobre la propiedad	
		SUBTOTAL	\$684
C	Impuestos y tasas de registro de la propiedad		\$2,060
D	Créditos del prestamista		(\$9,000)
E	Gastos de cierre estimados (A + B + C - D)		\$3,254

CUENTA DE GARANTÍA

F	Reservas para futuros gastos	Impuestos sobre la propiedad	
		Seguro <input type="checkbox"/> Hipoteca <input type="checkbox"/> Riesgos <input type="checkbox"/> Otros	
		Evaluaciones <input type="checkbox"/> HOA/Condominio/Cooperativa <input type="checkbox"/> Otros	
		SUBTOTAL	

FONDOS ADICIONALES

G	Contribuciones	a. Pago inicial (menos cualquier depósito) \$25,000	
		b. Contribución del prestatario	
		c. Contribución del vendedor (restar esta cantidad) (\$3,175)	
		SUBTOTAL (a + b - c)	\$21,825

H	Total de los gastos de cierre a financiar		
	Dinero en efectivo que necesita para el cierre (E + F + G - H)		\$25,079

Cuenta de reserva

- Sí, su pago mensual incluye los impuestos y seguro mensuales. Mire la sección F arriba.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Su tasa de interés y puntos pueden cambiar a no ser que usted confirme la tasa de interés. Todos los demás gastos de cierre vencen a las 3:00 p.m. del **07/07/2011**.

Información sobre la tasa de interés ajustable

Índice	LIBOR
Margen	2.75%
Tasa de interés máxima	10.5%
Tasa de interés mínima	4%
Límites a los ajustes de la tasa de interés	
Primer ajuste	5%
Ajustes posteriores	2%
Frecuencia de ajustes	
Primer ajuste:	A partir del mes 61
Ajustes posteriores:	Cada 12 meses después del primer ajuste

Round 2 – Loan Estimate design 1 (Spanish), interest only example A, page 1

LAUREL CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@laurelcreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodríguez
 María Rodríguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Primeros 5 años sólo interés, tasa fija
 PROGRAMA Convencional
 PROPÓSITO Compra

Términos del préstamo		¿ADVERTENCIA?
Cantidad del préstamo	\$315,000	
Tasa de interés	4.25%	NO
Pago mensual del préstamo Principal e interés Seguro hipotecario	\$1,275.76 \$1,115.63 + \$160.13	SÍ → <ul style="list-style-type: none"> Aumenta a \$1,867 en el año 6. No incluye el principal hasta el año 6.
Multa por pago adelantado		NO
Pago Balloon		NO

Pagos proyectados	Usted va a tener que hacer estos pagos.	
EN EL CIERRE	AÑOS 1 - 5	AÑOS 6 - 30
\$34,021	\$1,721 al mes	\$2,312 al mes
Dinero en efectivo que necesita para el cierre Mire los detalles en la página 2	\$1,276 pago mensual del préstamo + \$445 impuestos y seguro estimados	Incluye impuestos y seguro estimados

Comparaciones	Utilice estas medidas para evaluar este préstamo y compararlo con otros.	
Gastos de cierre estimados	\$11,572	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	4.77%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$88,117	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y gastos.
	\$0	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Detalles sobre el estimado del préstamo

Usted no tiene ninguna obligación de elegir este préstamo. Compare este préstamo con otros y elija el que más le convenga.

Gastos e impuestos

A. GASTOS DEL PRÉSTAMO		
Puntos <u>1</u> %		\$3,150
Reporte de Crédito		\$30
Gastos de servicio de impuestos		\$55
Determinación de inundación		\$30
Gastos por preparacion de documentos		\$85
Gastos de valoracion de la propiedad		\$400
Subtotal. <i>Este subtotal no va a cambiar.</i>		\$3,750
B. IMPUESTOS Y OTRAS TASAS GUBERNAMENTALES		
Impuestos de transferencia		\$1,960
Otros impuestos y tasas		\$150
Subtotal		\$2,110
C. PAGOS POR ADELANTADO		
Interés diario (\$37.18 por día durante 15 días)		\$558
Impuestos sobre la propiedad		
Prima de seguro hipotecario		
Prima de seguro contra riesgos		\$537
Seguro contra inundaciones		
Subtotal estimado		\$1,095
D. CUENTA DE RESERVA PARA FUTURAS FACTURAS		
Impuestos y evaluación	2 meses a \$356 por mes	\$712
Seguro hipotecario	2 meses a \$160 por mes	\$320
Seguro contra riesgos	2 meses a \$89.50 por mes	\$179
Seguro contra inundaciones		
Subtotal estimado		\$1,211

Cuenta de reserva

- Sí, su pago mensual incluye los impuestos y seguro mensuales. Mire la sección D arriba.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Su tasa de interés y puntos pueden cambiar a no ser que usted confirme la tasa de interés. Todos los demás gastos de cierre vencen a las 3:00 p.m. del **07/07/2011**.

Servicios que usted puede negociar

Nuestro precio por los servicios que usted puede negociar (E + F) no puede exceder \$5,079. Si usted elige a su propio proveedor, nuestro precio no se aplica para ese servicio.

E. GASTOS DE TÍTULO DE PROPIEDAD	
Honorarios del agente de cierre	\$550
Póliza del título del prestamista	\$475
Carta de compromiso	\$525
Estudio de título	\$1,100
Seguro provisional	\$812
Subtotal estimado	\$3,462
F. OTROS GASTOS	
Gastos del estudio topográfico	\$65
Inspección de plagas	\$125
Seguro del título del propietario (no es obligatorio)	\$965
Subtotal estimado	\$1,155
Total de fondos estimados que necesita para el cierre	
Gastos (A + B + C + E + F)	\$11,572
Créditos del prestamista	- 0
Gastos de cierre estimados	\$11,572
Cuenta de garantía para futuras facturas (D)	\$1,211
Pago inicial o contribución del prestatario	\$25,000
Créditos del vendedor	- \$3,762
Total de los gastos de cierre a financiar	- 0
Dinero en efectivo que necesita para el cierre	\$34,021

Round 2 – Loan Estimate design 1 (Spanish), interest only example B, page 1

LILAC CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@lilaccreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodríguez
 María Rodríguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Primeros 5 años sólo interés, tasa fija
 PROGRAMA Convencional
 PROPÓSITO Compra

Términos del préstamo		¿ADVERTENCIA?
Cantidad del préstamo	\$315,000	
Tasa de interés	4.875%	NO
Pago mensual del préstamo Principal e interés Seguro hipotecario	\$1,439.82 \$1,279.69 + \$160.13	SÍ → <ul style="list-style-type: none"> Aumenta a \$1,979 en el año 6. No incluye el principal hasta el año 6.
Multa por pago adelantado		NO
Pago Balloon		NO

Pagos proyectados	Usted va a tener que hacer estos pagos.	
EN EL CIERRE	AÑOS 1 - 5	AÑOS 6 - 30
\$25,454 Dinero en efectivo que necesita para el cierre Mire los detalles en la página 2	\$1,838 al mes \$1,440 pago mensual del préstamo + \$398 impuestos y seguro estimados	\$2,376 al mes Incluye impuestos y seguro estimados

Comparaciones	Utilice estas medidas para evaluar este préstamo y compararlo con otros.	
Gastos de cierre estimados	\$3,679	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	5.40%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$90,068	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y gastos.
	\$0	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Detalles sobre el estimado del préstamo

Usted no tiene ninguna obligación de elegir este préstamo. Compare este préstamo con otros y elija el que más le convenga.

Gastos e impuestos

A. GASTOS DEL PRÉSTAMO

Puntos <u>0</u> %	
Gastos de originación del préstamo	\$1,061
Gastos de evaluación de la solicitud del préstamo	\$927
Gastos de verificación	\$489
Gastos de valoración de la propiedad	\$685
Gastos de servicio de impuestos	\$110
Subtotal. Este subtotal no va a cambiar.	\$3,272

B. IMPUESTOS Y OTRAS TASAS GUBERNAMENTALES

Impuestos de transferencia	\$1,960
Otros impuestos y tasas	\$110
Subtotal	\$2,070

C. PAGOS POR ADELANTADO

Interés diario (\$42.66 por día durante 15 días)	\$640
Impuestos sobre la propiedad	
Prima de seguro hipotecario	
Prima de seguro contra riesgos	\$250
Seguro contra inundaciones	
Subtotal estimado	\$890

D. CUENTA DE RESERVA PARA FUTURAS FACTURAS

Impuestos y evaluación <u> </u> meses a <u> </u> por mes	
Seguro hipotecario <u> </u> meses a <u> </u> por mes	
Seguro contra riesgos <u> </u> meses a <u> </u> por mes	
Seguro contra inundaciones	

Subtotal estimado

Cuenta de reserva

- Sí, su pago mensual incluye los impuestos y seguro mensuales. Mire la sección D arriba.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Su tasa de interés y puntos pueden cambiar a no ser que usted confirme la tasa de interés. Todos los demás gastos de cierre vencen a las 3:00 p.m. del 07/07/2011.

Servicios que usted puede negociar

Nuestro precio por los servicios que usted puede negociar (E + F) no puede exceder \$6,542. Si usted elige a su propio proveedor, nuestro precio no se aplica para ese servicio.

E. GASTOS DE TÍTULO DE PROPIEDAD

Honorarios del agente de cierre	\$726
Póliza del título del prestamista	\$500
Examen del título	\$1,369
Seguro de título provisional	\$747
Búsqueda del extracto del título de propiedad	\$1,215
Subtotal estimado	\$4,557

F. OTROS GASTOS

Gastos del estudio topográfico	\$125
Inspección de plagas	\$215
Seguro del título del propietario (no es obligatorio)	\$1,050
Subtotal estimado	\$1,390

Total de fondos estimados que necesita para el cierre

Gastos (A + B + C + E + F)	\$12,179
Créditos del prestamista	-\$8,500
Gastos de cierre estimados	\$3,679

Cuenta de garantía para futuras facturas (D)

Pago inicial o contribución del prestatario	\$25,000
Créditos del vendedor	-\$3,225
Total de los gastos de cierre a financiar	-0

Dinero en efectivo que necesita para el cierre \$25,454

Round 2 – Loan Estimate design 2 (Spanish), ARM example C, page 1

PECAN CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 AGENTE DE PRÉSTAMOS Juan Garcia
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@pecancreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodriguez
 María Rodriguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Tasa de interés ajustable 5/1
 PROGRAMA Convencional
 PROPÓSITO Compra

Términos del préstamo		¿ADVERTENCIA?	
Cantidad del préstamo	\$315,000		
Tasa de interés	2.75% durante los primeros 5 años	SI	<ul style="list-style-type: none"> Puede augmentar hasta un 8% en el año 7. Se ajusta anualmente a partir del año 6. Mire los detalles en la página 2.
Pago mensual del préstamo	\$1,446.10	SI	<ul style="list-style-type: none"> Puede augmentar hasta \$2,311. Se ajusta anualmente a partir del año 6.
Principal e interés	\$1,285.97		
Seguro hipotecario	+ \$160.13		
Multa por pago adelantado		NO	
Pago Balloon		NO	

Pagos proyectados	Usted va a tener que hacer estos pagos.		
EN EL CIERRE	AÑOS 1 – 5	AÑO 6	AÑOS 7 – 30
\$33,896	\$1,883 al mes	\$2,703 si la tasa de interés es 7.75%	\$2,748 si la tasa de interés es 8%
Dinero en efectivo que necesita para el cierre Mire los detalles en la página 2.	\$1,446 pago mensual del préstamo + \$437 impuestos y seguro estimados	\$1,919 si la tasa de interés es 3%	\$1,919 si la tasa de interés es 3%
		Incluye impuestos y seguro estimados	Incluye impuestos y seguro estimados

Comparaciones	Utilice estas medidas para evaluar este préstamo y compararlo con otros.	
Gastos de cierre estimados	\$11,448	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	3.28%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$98,214	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y comisiones.
	\$36,239	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Detalles sobre el estimado del préstamo

NÚMERO ID DEL PRÉSTAMO 1330172608 PÁGINA 2

Usted no tiene ninguna obligación de elegir este préstamo. Compare este préstamo con otros y elija el que más le convenga.

Gastos e impuestos

A. GASTOS DEL PRÉSTAMO		
Puntos	<u>1</u> %	\$3,150
Gastos de Originación		\$20
Gastos de valoración de la propiedad		\$425
Gastos de servicio de impuestos		\$55
Gastos por preparación de documentos		\$95
Determinación de inundaciones		\$30
Subtotal.	<i>Este subtotal no va a cambiar.</i>	\$3,775
B. IMPUESTOS Y OTRAS TASAS GUBERNAMENTALES		
Impuestos de transferencia		\$1,960
Otros impuestos y tasas		\$150
Subtotal		\$2,110
C. PAGOS POR ADELANTADO		
Interés diario (\$24.06 por día durante 15 días)		\$361
Impuestos sobre la propiedad		
Prima de seguro hipotecario		
Prima de seguro contra riesgos		\$489
Seguro contra inundaciones		
Subtotal estimado		\$850
D. CUENTA DE RESERVA PARA FUTURAS FACTURAS		
Impuestos y evaluación	2 meses a \$356 por mes	\$712
Seguro hipotecario	2 meses a \$160 por mes	\$320
Seguro contra riesgos	2 meses a \$81.50 por mes	\$163
Seguro contra inundaciones		
Subtotal estimado		\$1,195

Cuenta de reserva

- Sí, su pago mensual incluye los impuestos y seguro mensuales. Mire la sección D arriba.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Su tasa de interés y puntos pueden cambiar a no ser que usted confirme la tasa de interés. Todos los demás gastos de cierre vencen a las 3:00 p.m. del 07/07/2011.

Servicios que usted puede negociar

Nuestro precio por los servicios que usted puede negociar (E + F) no puede exceder \$5,184. Si usted elige a su propio proveedor, nuestro precio no se aplica para ese servicio.

E. GASTOS DE TÍTULO DE PROPIEDAD	
Honorarios del agente de cierre	\$626
Póliza del título del prestamista	\$500
Estudio de Título	\$1,437
Seguro Provisional	\$200
Carta de Compromiso de Título	\$800
Subtotal estimado	\$3,563
F. OTROS GASTOS	
Gastos del estudio topográfico	\$75
Inspección de plagas	\$125
Seguro del título del propietario (no es obligatorio)	\$950
Subtotal estimado	\$1,150

Total de fondos estimados que necesita para el cierre

Gastos (A + B + C + E + F)	\$11,448
Créditos del prestamista	- 0
Gastos de cierre estimados	\$11,448
Cuenta de garantía para futuras facturas (D)	\$1,195
Pago inicial o contribución del prestatario	\$25,000
Créditos del vendedor	- \$3,747
Total de los gastos de cierre a financiar	- 0
Dinero en efectivo que necesita para el cierre	\$33,896

Información sobre la tasa de interés ajustable

Índice	LIBOR
Margen	2%
Tasa de interés máxima	8%
Tasa de interés mínima	3%
Límites a los ajustes de la tasa de interés	
Primer ajuste	5%
Ajustes posteriores	2%
Frecuencia de ajustes	
Primer ajuste:	A partir del mes 61
Ajustes posteriores:	Cada 12 meses después del primer ajuste

Round 2 – Loan Estimate design 2 (Spanish), ARM example D, page 1

POPLAR CREDIT UNION

4321 Random Boulevard • Somecity, CA 54321

NÚMERO ID DEL PRÉSTAMO 1330172608
 OFICIAL DE PRÉSTAMOS Juan García
 TELÉFONO 555-123-4444
 CORREO ELECTRÓNICO juangarcia@poplarcreditunion.com
 NÚMERO ID NMLS 01234567

Estimado del préstamo

SOLICITANTES José Rodríguez
 María Rodríguez
 PROPIEDAD 456 Avenue A
 Anytown, CA 12345

FECHA DE EMISIÓN 06/22/2011
 PLAZO DEL PRÉSTAMO 30 años
 TIPO DE PRÉSTAMO Tasa de interés ajustable 5/1
 PROGRAMA Convencional
 PROPOSITO Compra

Términos del préstamo		¿ADVERTENCIA?	
Cantidad del préstamo	\$315,000		
Tasa de interés	3.5% durante los primeros 5 años	SI	<ul style="list-style-type: none"> Puede augmentar hasta un 10.5% en el año 7. Se ajusta anualmente a partir del año 6. Mire los detalles en la página 2.
Pago mensual del préstamo	\$1,574.63	SI	<ul style="list-style-type: none"> Puede augmentar hasta \$2,819. Se ajusta anualmente a partir del año 6.
Principal e interés	\$1,414.50		
Seguro hipotecario	+ \$160.13		
Multa por pago adelantado		NO	
Pago Balloon		NO	

Pagos proyectados	Usted va a tener que hacer estos pagos.		
EN EL CIERRE	AÑOS 1 – 5	AÑO 6	AÑOS 7 – 30
\$25,079	\$1,968 al mes	\$2,829 si la tasa de interés es 8.5%	\$3,212 si la tasa de interés es 10.5%
Dinero en efectivo que necesita para el cierre	\$1,575 pago mensual del préstamo	\$2,045 si la tasa de interés es 4%	\$2,045 si la tasa de interés es 4%
Mire los detalles en la página 2	+ \$393 impuestos y seguro estimados	Incluye impuestos y seguro estimados	Incluye impuestos y seguro estimados

Comparaciones	Utilice estas medidas para evaluar este préstamo y compararlo con otros.	
Gastos de cierre estimados	\$3,254	Mire los detalles en la página 2.
Tasa de porcentaje anual (APR)	4.22%	Sus intereses y gastos durante 30 años como tasa anual.
En 5 años	\$97,732	La cantidad total que usted ha pagado por el principal, interés, seguro hipotecario y gastos.
	\$32,455	Principal que usted ha pagado.

Para más información y ayuda, visite www.consumerfinance.gov/futureurl

Detalles sobre el estimado del préstamo

Usted no tiene ninguna obligación de elegir este préstamo. Compare este préstamo con otros y elija el que más le convenga.

Gastos e impuestos

A. GASTOS DEL PRÉSTAMO	
Puntos	<u> 0 </u> %
Gastos de originación del préstamo	\$1,155
Gastos de evaluación de la solicitud del préstamo	\$900
Gastos de procesamiento	\$600
Gastos de valoración de la propiedad	\$675
Determinación de impuestos e inundaciones	\$160
Subtotal. Este subtotal no va a cambiar.	\$3,490
B. IMPUESTOS Y OTRAS TASAS GUBERNAMENTALES	
Impuestos de transferencia	\$1,960
Otros impuestos y tasas	\$100
Subtotal	\$2,060
C. PAGOS POR ADELANTADO	
Interés diario (\$30.63 por día durante 15 días)	\$459
Impuestos sobre la propiedad	
Prima de seguro hipotecario	
Prima de seguro contra riesgos	\$225
Seguro contra inundaciones	
Subtotal estimado	\$684
D. CUENTA DE RESERVA PARA FUTURAS FACTURAS	
Impuestos y evaluación	<u> </u> meses a <u> </u> por mes
Seguro hipotecario	<u> </u> meses a <u> </u> por mes
Seguro contra riesgos	<u> </u> meses a <u> </u> por mes
Seguro contra inundaciones	
Subtotal estimado	

Cuenta de reserva

- Sí, su pago mensual incluye los impuestos y seguro mensuales. Mire la sección D arriba.
- NO, usted debe pagar sus impuestos y seguro aparte.

Fechas importantes

Su tasa de interés y puntos pueden cambiar a no ser que usted confirme la tasa de interés. Todos los demás gastos de cierre vencen a las 3:00 p.m. del **07/07/2011**.

Servicios que usted puede negociar

Nuestro precio por los servicios que usted puede negociar (E + F) no puede exceder \$6,622. Si usted elige a su propio proveedor, nuestro precio no se aplica para ese servicio.

E. GASTOS DE TÍTULO DE PROPIEDAD	
Honorarios del agente de cierre	\$873
Póliza del título del prestamista	\$650
Búsqueda del extracto del título de propiedad	\$800
Examen del título	\$1,377
Carta de compromiso de título	\$1,000
Subtotal estimado	\$4,700
F. OTROS GASTOS	
Gastos del estudio topográfico	\$105
Inspección de plagas	\$200
Seguro del título del propietario (no es obligatorio)	\$1,015
Subtotal estimado	\$1,320

Total de fondos estimados que necesita para el cierre

Gastos (A + B + C + E + F)	\$12,254
Créditos del prestamista	-\$9,000
Gastos de cierre estimados	\$3,254
Cuenta de garantía para futuras facturas (D)	
Pago inicial o contribución del prestatario	\$25,000
Créditos del vendedor	-\$3,175
Total de los gastos de cierre a financiar	- 0
Dinero en efectivo que necesita para el cierre	\$25,079

Información sobre la tasa de interés ajustable

Índice	LIBOR
Margen	2.75%
Tasa de interés máxima	10.5%
Tasa de interés mínima	4%
Límites a los ajustes de la tasa de interés	
Primer ajuste	5%
Ajustes posteriores	2%
Frecuencia de ajustes	
Primer ajuste:	A partir del mes 61
Ajustes posteriores:	Cada 12 meses después del primer ajuste

Investment St...
 2021, MD 12...
 With...
 Commitment Fee

Projected Payments	
Payment Calculation	
YES	Principal & Interest
NO	Mortgage Insurance
YES	Estimated Escrow Amount Can Increase Over Time
Estimated Total Monthly Payment	
YES	Estimated Taxes, Insur... & Assessments Amount Can Increase Over Time See Details on Page

Appendix

F

Loan Estimates for Round 3 – Chicago, IL

Round 3 – Loan Estimate design 1, negative amortization 1/1 ARM, example A, page 1

BALSAM SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 30 years
PRODUCT 1/1 Adjustable Rate
PURPOSE Purchase
LOAN TYPE Conventional FHA VA

Loan Terms		Can this increase after closing?
Loan Amount	\$171,000	YES <ul style="list-style-type: none"> • Can go as high as \$178,819. • Can increase until year 6.
Interest Rate	2% for 1 year	YES <ul style="list-style-type: none"> • Can go as high as 7% in year 10. • Adjusts every year starting in year 2. • See adjustable interest rate information on page 2.
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$718.99 \$632.06 + \$86.93	YES <ul style="list-style-type: none"> • Can go as high as \$1,164 in year 9. • Is fixed until year 6. • See adjustable payment information on page 2.
Does this loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.			
AT CLOSING	YEARS 1-5	YEAR 6	YEAR 7	YEARS 8-30
\$18,828 Cash Needed to Close Includes estimated closing costs. See page 2 for details.	\$719 monthly loan payment	\$826 - \$1,027 monthly loan payment	\$826 - \$1,073 monthly loan payment	\$826 - \$1,164 monthly loan payment
Estimated Taxes and Insurance				
\$303 a month				
<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,022 a month to start.				
<input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.				

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$7,415	See page 2 for details.
Annual Percentage Rate (APR)	4.76%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$50,554	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$10,138	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

EVOLUTION OF THE INTEGRATED TILA/RESPA DISCLOSURES

Round 3 – Loan Estimate design 1, negative amortization 1/1 ARM, example A, page 2

CREDITOR Balsam Savings Bank NMLS ID LOAN ID # 1330172608
 LOAN OFFICER Joe Smith NMLS ID 76543210 PAGE 2
 PHONE 555-123-4444 EMAIL joesmith@balsamsavingsbank.com

Estimated Closing Costs			
A	Origination Charges	Origination Services	\$480
		<u>1</u> Points paid for interest rate	\$1,710
B	Services You Cannot Shop For	<input checked="" type="checkbox"/> Appraisal <input type="checkbox"/> Lender's Attorney	\$1,032
		<input checked="" type="checkbox"/> Credit report <input checked="" type="checkbox"/> Other	
C	Services You Can Shop For	Title Services and Lender's Title Insurance	\$1,837
		Survey Fee	\$125
		Pest Inspection Fee	\$121
		Borrower's Attorney Fee	\$550
D	Taxes and Other Government Fees	Transfer Taxes	\$1,425
		Recording Fees	\$135
		Government Taxes and Other Fees	\$0
E	Lender Credits		\$0
Estimated Closing Costs (A + B + C + D - E)			\$7,415

Cash Needed to Close			
F	Future Costs Paid at Closing	Insurance and property-related bills due at closing: <input type="checkbox"/> Property Taxes <input type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op	\$489
		Payment into escrow for future insurance and property-related bills: <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op	\$781
		Prepaid Interest (15 days @ 2.0%, \$9.50 per day)	\$143
		G Adjustments	Down Payment (minus \$9,000 deposit)
		Seller Credits	- \$0
		Closing Costs to be Financed	- \$0
Cash Needed to Close (Estimated Closing Costs + F + G)			\$18,828

Adjustable Payment Information	
Negative Amortization	
Loan Amount Increase Limit	115% of original principal amount
Scheduled Loan Amount Increase	\$7,819
Limits on Payment Changes	
Initial Payment	\$719 a month
Subsequent Changes	Varies with interest rate
Change Frequency	
First Change	61st payment
Subsequent Changes	Every 12th month after first change

Adjustable Interest Rate Information	
Index + Margin	LIBOR + 4%
Initial Interest Rate	2.00%
Minimum/Maximum Interest Rate	3% / 7%
Limits on Interest Rate Changes	
First Change	1%
Subsequent Changes	0.5%
Change Frequency	
First Change	Beginning of 13th month
Subsequent Changes	Every 12th month after first change

You have no obligation to choose this loan. Shop around to find the best loan for you.

Round 3 – Loan Estimate design 1, negative amortization 2/1 ARM, example B, page 1

BEECH SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 30 years
PRODUCT 2/1 Adjustable Rate
PURPOSE Purchase
LOAN TYPE Conventional FHA VA

Loan Terms		Can this increase after closing?
Loan Amount	\$171,000	YES <ul style="list-style-type: none"> • Can go as high as \$181,888. • Can increase until year 6.
Interest Rate	2.75% for 2 years	YES <ul style="list-style-type: none"> • Can go as high as 8% in year 7. • Adjusts every year starting in year 3. • See adjustable interest rate information on page 2.
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$785.03 \$698.10 + \$86.93	YES <ul style="list-style-type: none"> • Can go as high as \$1,372 in year 7. • Is fixed until year 6. • See adjustable payment information on page 2.
Does this loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.			
AT CLOSING	YEARS 1-5	YEAR 6	YEAR 7	YEARS 8-30
\$18,735 Cash Needed to Close Includes estimated closing costs. See page 2 for details.	\$785 monthly loan payment	\$810-\$1,345 monthly loan payment	\$810-\$1,372 monthly loan payment	\$810-\$1,372 monthly loan payment
Estimated Taxes and Insurance				
\$308 a month				
<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,093 a month to start.				
<input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.				

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$7,229	See page 2 for details.
Annual Percentage Rate (APR)	5.78%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$54,331	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$6,090	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 3 – Loan Estimate design 1, negative amortization 2/1 ARM, example B, page 2

CREDITOR Beech Savings Bank NMLS ID LOAN ID # 1330172608
 LOAN OFFICER Joe Smith NMLS ID 76543210 PAGE 2
 PHONE 555-123-4444 EMAIL joesmith@beechsavingsbank.com

Estimated Closing Costs			
A	Origination Charges	Origination Services	\$2,673
		0 Points paid for interest rate	\$0
B	Services You Cannot Shop For	<input checked="" type="checkbox"/> Appraisal <input type="checkbox"/> Lender's Attorney	\$689
		<input checked="" type="checkbox"/> Credit report <input checked="" type="checkbox"/> Other	
C	Services You Can Shop For	Title Services and Lender's Title Insurance	\$1,648
		Borrower's Attorney Fee	\$500
		Survey Fee	\$75
		Pest Inspection Fee	\$89
D	Taxes and Other Government Fees	Transfer Taxes	\$1,425
		Recording Fees	\$130
		Government Taxes and Other Fees	\$0
E	Lender Credits		\$0
Estimated Closing Costs (A + B + C + D - E)			\$7,229

Cash Needed to Close			
F	Future Costs Paid at Closing	Insurance and property-related bills due at closing: <input type="checkbox"/> Property Taxes <input type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op	\$519
		Payment into escrow for future insurance and property-related bills: <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op	\$791
		Prepaid Interest (15 days @ 2.75%, \$13.06 per day)	\$196
G	Adjustments	Down Payment (minus \$9,000 deposit)	\$10,000
		Seller Credits	- \$0
		Closing Costs to be Financed	- \$0
Cash Needed to Close (Estimated Closing Costs + F + G)			\$18,735

Adjustable Payment Information	
Negative Amortization	
Loan Amount Increase Limit	115% of original principal amount
Scheduled Loan Amount Increase	\$9,588
Limits on Payment Changes	
Initial Payment	\$785 a month
Subsequent Changes	Varies with interest rate
Change Frequency	
First Change	61st payment
Subsequent Changes	Every 12th month after first change

Adjustable Interest Rate Information	
Index + Margin LIBOR + 5%	
Initial Interest Rate	2.75%
Minimum/Maximum Interest Rate	3% / 8%
Limits on Interest Rate Changes	
First Change	2%
Subsequent Changes	1%
Change Frequency	
First Change	Beginning of 25th month
Subsequent Changes	Every 12th month after first change

You have no obligation to choose this loan. Shop around to find the best loan for you.

Round 3 – Loan Estimate design 1, 7 year with balloon payment, example C, page 1

FICUS SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 7 years
PRODUCT Fixed Rate Balloon
PURPOSE Purchase
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this increase after closing?
Loan Amount	\$171,000	NO
Interest Rate	4.375%	NO
Monthly Loan Payment	\$940.72	NO
Principal and Interest	\$853.79	
Mortgage Insurance	+ \$86.93	
		Does this loan have these features?
Prepayment Penalty		NO
Balloon Payment		YES • You will have to pay \$149,349 at the end of year 7.

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 - 7	FINAL PAYMENT
\$17,781	\$941 monthly loan payment	\$149,349 balloon payment
Cash Needed to Close Includes estimated closing costs. See page 2 for details.	Estimated Taxes and Insurance \$309 a month	
	<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,250 a month to start. <input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.	

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$6,151	See page 2 for details.
Annual Percentage Rate (APR)	5.35%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$62,594	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$15,418	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 3 – Loan Estimate design 1, 7 year with balloon payment, example C, page 2

CREDITOR Ficus Savings Bank NMLS ID
 LOAN OFFICER Joe Smith NMLS ID 76543210
 PHONE 555-123-4444 EMAIL joesmith@ficussavingsbank.com

LOAN ID # 1330172608
 PAGE 2

Estimated Closing Costs	A	Origination Charges	Origination Services	\$330	
			<u>1</u> Points paid for interest rate	\$1,710	
	B	Services You Cannot Shop For	<input checked="" type="checkbox"/> Appraisal	<input type="checkbox"/> Lender's Attorney	\$508
			<input checked="" type="checkbox"/> Credit report	<input checked="" type="checkbox"/> Other	
	C	Services You Can Shop For	Title Services and Lender's Title Insurance		\$1,456
			Borrower's Attorney		\$400
			Survey		\$95
			Inspections		\$112
	D	Taxes and Other Government Fees	Transfer Taxes		\$1,425
			Recording Fees		\$115
Government Taxes and Other Fees				\$0	
E	Lender Credits			\$0	
Estimated Closing Costs (A + B + C + D - E)				\$6,151	
Cash Needed to Close	F	Future Costs Paid at Closing	Insurance and property-related bills due at closing: <input type="checkbox"/> Property Taxes <input type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/>	\$525	
			Payment into escrow for future insurance and property-related bills: <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Mortgage Insurance <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> HOA/Condo/Co-op <input type="checkbox"/>	\$793	
			Prepaid Interest (15 days @ 4.375%, \$20.78 per day)	\$312	
	G	Adjustments	Down Payment (minus \$9,000 deposit)	\$10,000	
			Seller Credits	- \$0	
			Closing Costs to be Financed	- \$0	
Cash Needed to Close (Estimated Closing Costs + F + G)				\$17,781	

You have no obligation to choose this loan. Shop around to find the best loan for you.

Round 3 – Loan Estimate design 1, 7 year with balloon payment, example D, page 1

FIR SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 7 years
PRODUCT Fixed Rate Balloon
PURPOSE Purchase
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this increase after closing?
Loan Amount	\$176,000	NO
Interest Rate	4.625%	NO
Monthly Loan Payment	\$1,038.36	NO
Principal and Interest	\$904.89	
Mortgage Insurance	+ \$133.47	
		Does this loan have these features?
Prepayment Penalty		NO
Balloon Payment		YES • You will have to pay \$154,616 at the end of year 7.

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 7	FINAL PAYMENT
\$15,376	\$1,038 monthly loan payment	\$154,616 balloon payment
Cash Needed to Close Includes estimated closing costs. See page 2 for details.	Estimated Taxes and Insurance \$338 a month	
	<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,376 a month to start. <input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.	

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$8,393	See page 2 for details.
Annual Percentage Rate (APR)	6.06%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$70,695	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$15,261	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 3 – Loan Estimate design 1, 7 year with balloon payment, example D, page 2

CREDITOR Fir Savings Bank
LOAN OFFICER Joe Smith
PHONE 555-123-4444

NMLS ID
NMLS ID 76543210
EMAIL joesmith@firsavingsbank.com

LOAN ID # 1330172608
PAGE 2

Estimated Closing Costs	A	Origination Charges	Origination Services	\$2,950	
			<u>0</u> Points paid for interest rate	\$0	
	B	Services You Cannot Shop For	<input checked="" type="checkbox"/> Appraisal	<input type="checkbox"/> Lender's Attorney	\$1,140
			<input checked="" type="checkbox"/> Credit report	<input checked="" type="checkbox"/> Other	
	C	Services You Can Shop For	Title Services and Lender's Title Insurance		\$2,042
			Pest Inspection Fee		\$106
			Survey Fee		\$215
			Borrower's Attorney Fee		\$400
	D	Taxes and Other Government Fees	Transfer Taxes		\$1,425
			Recording Fees		\$115
Government Taxes and Other Fees			\$0		
E	Lender Credits			\$0	
Estimated Closing Costs (A + B + C + D - E)				\$8,393	
Cash Needed to Close	F	Future Costs Paid at Closing	Insurance and property-related bills due at closing:		
			<input type="checkbox"/> Property Taxes	<input type="checkbox"/> Mortgage Insurance	
			<input checked="" type="checkbox"/> Homeowner's Insurance	<input type="checkbox"/> HOA/Condo/Co-op	
				\$700	
			Payment into escrow for future insurance and property-related bills:		
	<input checked="" type="checkbox"/> Property Taxes	<input checked="" type="checkbox"/> Mortgage Insurance			
<input checked="" type="checkbox"/> Homeowner's Insurance	<input type="checkbox"/> HOA/Condo/Co-op				
			\$944		
		Prepaid Interest (15 days @ 4.625%, \$22.61 per day)		\$339	
G	Adjustments	Down Payment (minus \$9,000 deposit)		\$10,000	
		Seller Credits		- \$0	
		Closing Costs to be Financed		- \$5,000	
Cash Needed to Close (Estimated Closing Costs + F + G)				\$15,376	

You have no obligation to choose this loan. Shop around to find the best loan for you.

Round 3 – Loan Estimate design 2, negative amortization 1/1 ARM, example A, page 1

LAUREL SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 30 years
PRODUCT 1/1 Adjustable Rate
PURPOSE Purchase
LOAN TYPE Conventional FHA VA

Loan Terms		Can this increase after closing?
Loan Amount	\$171,000	YES <ul style="list-style-type: none"> • Can go as high as \$178,819. • Can increase until year 6.
Interest Rate	2% for 1 year	YES <ul style="list-style-type: none"> • Can go as high as 7% in year 10. • Adjusts every year starting in year 2. • See adjustable interest rate information on page 2.
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$718.99 \$632.06 + \$86.93	YES <ul style="list-style-type: none"> • Can go as high as \$1,164 in year 9. • Is fixed until year 6. • See adjustable payment information on page 2.
Does this loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	Expect to make these payments.			
AT CLOSING	YEARS 1-5	YEAR 6	YEAR 7	YEARS 8-30
\$18,828 Cash Needed to Close Includes estimated closing costs. See page 2 for details.	\$719 monthly loan payment	\$826 - \$1,027 monthly loan payment	\$826 - \$1,073 monthly loan payment	\$826 - \$1,164 monthly loan payment
Estimated Taxes and Insurance				
\$303 a month				
<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,022 a month to start.				
<input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.				

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$7,415	See page 2 for details.
Annual Percentage Rate (APR)	4.76%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$50,554	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$10,138	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 3 – Loan Estimate design 2, negative amortization 1/1 ARM, example A, page 2

CREDITOR Laurel Savings Bank NMLS ID LOAN ID # 1330172608
 LOAN OFFICER Joe Smith NMLS ID 76543210 PAGE 2
 PHONE 555-123-4444 EMAIL joesmith@laurelsavingsbank.com

Costs and Taxes

A. ORIGATION CHARGES

Points <u>1</u> %	\$1,710
Document Preparation Fee	\$35
Underwriting Fee	\$300
Tax Servicing Fee	\$75
Administration Fee	\$20
Verification Fee	\$50

B. SERVICES YOU CANNOT SHOP FOR

Credit Report Fee	\$30
Document Preparation Fee	\$225
Tax Status Research Fee	\$50
Flood Determination Fee	\$32
Appraisal Fee	\$575
Appraisal Review Fee	\$120

C. SERVICES YOU CAN SHOP FOR

Lender's Title Policy	\$583
All Other Title Service Fees	\$1,254
Survey Fee	\$125
Pest Inspection Fee	\$121
Borrower's Attorney Fee	\$550

D. TAXES AND OTHER GOVERNMENT FEES

Transfer Taxes	\$1,425
Recording Fees	\$135

Adjustable Payment Information

Negative Amortization

Loan Amount Increase Limit	115% of original principal amount
Scheduled Loan Amount Increase	\$7,819

Limits on Payment Changes

Initial Payment	\$719 a month
Subsequent Changes	Varies with interest rate

Change Frequency

First Change	61st payment
Subsequent Changes	Every 12th month after first change

Future Costs Paid at Closing

E. BILLS DUE AT CLOSING

Mortgage Insurance Premium (<u>0</u> months)	\$0
Homeowner's Insurance Premium (<u>6</u> months)	\$489
Prepaid Interest (\$9.50 per day for 15 days)	\$143

F. PAYMENT INTO ESCROW FOR FUTURE BILLS

Homeowner's Insurance	2 mo. at \$81.50 per month	\$163
Mortgage Insurance	2 mo. at \$86.93 per month	\$174
Tax & Assessment	2 mo. at \$222 per month	\$444
HOA/Condo/Co-op	0 mo. at \$0 per month	\$0

Estimated Closing Costs

A + B + C + D	\$7,415
Lender Credits	\$0
Estimated Closing Costs	\$7,415

Cash Needed to Close

Estimated Closing Costs	\$7,415
E + F	\$1,413
Down Payment (minus \$9,000 deposit)	\$10,000
Seller Credits	-\$0
Closing Costs to be Financed	-\$0
Cash Needed to Close	\$18,828

Adjustable Interest Rate Information

Index + Margin	LIBOR + 4%
Initial Interest Rate	2.00%
Minimum/Maximum Interest Rate	3% / 7%

Limits on Interest Rate Changes

First Change	1%
Subsequent Changes	0.5%

Change Frequency

First Change	Beginning of 13th month
Subsequent Changes	Every 12th month after first change

You have no obligation to choose this loan. Shop around to find the best loan for you.

Round 3 – Loan Estimate design 2, negative amortization 2/1 ARM, example B, page 1

LILAC SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 30 years
PRODUCT 2/1 Adjustable Rate
PURPOSE Purchase
LOAN TYPE Conventional FHA VA

Loan Terms	Can this increase after closing?	
Loan Amount	\$171,000	YES <ul style="list-style-type: none"> • Can go as high as \$181,888. • Can increase until year 6.
Interest Rate	2.75% for 2 years	YES <ul style="list-style-type: none"> • Can go as high as 8% in year 7. • Adjusts every year starting in year 3. • See adjustable interest rate information on page 2.
Monthly Loan Payment Principal and Interest Mortgage Insurance	\$785.03 \$698.10 + \$86.93	YES <ul style="list-style-type: none"> • Can go as high as \$1,372 in year 7. • Is fixed until year 6. • See adjustable payment information on page 2.
Does this loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments	Expect to make these payments.			
AT CLOSING	YEARS 1-5	YEAR 6	YEAR 7	YEARS 8-30
\$18,735 Cash Needed to Close Includes estimated closing costs. See page 2 for details.	\$785 monthly loan payment	\$810-\$1,345 monthly loan payment	\$810-\$1,372 monthly loan payment	\$810-\$1,372 monthly loan payment
Estimated Taxes and Insurance \$308 a month				
<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,093 a month to start. <input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.				

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$7,229	See page 2 for details.
Annual Percentage Rate (APR)	5.78%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$54,331	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$6,090	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

EVOLUTION OF THE INTEGRATED TILA/RESPA DISCLOSURES

Round 3 – Loan Estimate design 2, negative amortization 2/1 ARM, example B, page 2

CREDITOR Lilac Savings Bank **NMLS ID**
LOAN OFFICER Joe Smith **NMLS ID** 76543210
PHONE 555-123-4444 **EMAIL** joesmith@lilacsavingsbank.com

LOAN ID # 1330172608
PAGE 2

Costs and Taxes	
A. ORIGATION CHARGES	
Points <u>0</u> %	\$0
Verification Fee	\$836
Processing Fee	\$1,037
Application Fee	\$50
Loan Origination Fee	\$750

B. SERVICES YOU CANNOT SHOP FOR	
Flood Determination Fee	\$35
Tax Status Research Fee	\$20
Appraisal Fee	\$425
Lender's Attorney	\$125
Compliance Review Fee	\$7
Monitoring Fee	\$40
Credit Report Fee	\$5
Escrow Establishment Fee	\$32

C. SERVICES YOU CAN SHOP FOR	
Lender's Title Policy	\$499
All Other Title Service Fees	\$1,109
Pest Inspection Fee	\$89
Borrower's Attorney	\$500
Survey Fee	\$75
Signing Agent Fee	\$40

D. TAXES AND OTHER GOVERNMENT FEES	
Transfer Taxes	\$1,425
Recording Fees	\$130

Adjustable Payment Information	
Negative Amortization	
Loan Amount Increase Limit	115% of original principal amount
Scheduled Loan Amount Increase	\$9,588
Limits on Payment Changes	
Initial Payment	\$785 a month
Subsequent Changes	Varies with interest rate
Change Frequency	
First Change	61st payment
Subsequent Changes	Every 12th month after first change

Future Costs Paid at Closing	
E. BILLS DUE AT CLOSING	
Mortgage Insurance Premium (<u>0</u> months)	\$0
Homeowner's Insurance Premium (<u>6</u> months)	\$519
Prepaid Interest (\$13.06 per day for 15 days)	\$196

F. PAYMENT INTO ESCROW FOR FUTURE BILLS		
Homeowner's Insurance	2 mo. at \$86.50 per month	\$173
Mortgage Insurance	2 mo. at \$86.93 per month	\$174
Tax & Assessment	2 mo. at \$222 per month	\$444
HOA/Condo/Co-op	0 mo. at \$0 per month	\$0

Estimated Closing Costs	
A + B + C + D	\$7,229
Lender Credits	\$0
Estimated Closing Costs	\$7,229

Cash Needed to Close	
Estimated Closing Costs	\$7,229
E + F	\$1,506
Down Payment (minus \$9,000 deposit)	\$10,000
Seller Credits	-\$0
Closing Costs to be Financed	-\$0
Cash Needed to Close	\$18,735

Adjustable Interest Rate Information	
Index + Margin	LIBOR + 5%
Initial Interest Rate	2.75%
Minimum/Maximum Interest Rate	3% / 8%
Limits on Interest Rate Changes	
First Change	2%
Subsequent Changes	1%
Change Frequency	
First Change	Beginning of 25th month
Subsequent Changes	Every 12th month after first change

You have no obligation to choose this loan. Shop around to find the best loan for you.

Round 3 – Loan Estimate design 2, 7 year with balloon payment, example C, page 1

PECAN SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 7 years
PRODUCT Fixed Rate Balloon
PURPOSE Purchase
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this increase after closing?
Loan Amount	\$171,000	NO
Interest Rate	4.375%	NO
Monthly Loan Payment	\$940.72	NO
Principal and Interest	\$853.79	
Mortgage Insurance	+ \$86.93	
		Does this loan have these features?
Prepayment Penalty		NO
Balloon Payment		YES • You will have to pay \$149,349 at the end of year 7.

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 7	FINAL PAYMENT
\$17,781	\$941 monthly loan payment	\$149,349 balloon payment
Cash Needed to Close Includes estimated closing costs. See page 2 for details.	Estimated Taxes and Insurance \$309 a month	
	<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,250 a month to start. <input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.	

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$6,151	See page 2 for details.
Annual Percentage Rate (APR)	5.35%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$62,594	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$15,418	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 3 – Loan Estimate design 2, 7 year with balloon payment, example C, page 2

CREDITOR Pecan Savings Bank NMLS ID LOAN ID # 1330172608
 LOAN OFFICER Joe Smith NMLS ID 76543210 PAGE 2
 PHONE 555-123-4444 EMAIL joesmith@pecansavingsbank.com

Costs and Taxes

A. ORIGATION CHARGES

Points <u>1</u> %	\$1,710
Wire Transfer Fee	\$30
Verification Fee	\$75
Processing Fee	\$50
Underwriting Fee	\$150
Application Fee	\$25

B. SERVICES YOU CANNOT SHOP FOR

Credit Report Fee	\$9
Appraisal Fee	\$305
Compliance Review Fee	\$3
Tax Status Research Fee	\$45
Flood Determination Fee	\$20
Tax Monitoring Fee	\$60
Warehousing Fee	\$52
Rush Fee	\$14

C. SERVICES YOU CAN SHOP FOR

Lender's Title Policy	\$439
All Other Title Service Fees	\$1,017
Survey Fee	\$95
Borrower's Attorney Fee	\$400
Pest Inspection Fee	\$75
Structural Inspection Fee	\$37

D. TAXES AND OTHER GOVERNMENT FEES

Transfer Taxes	\$1,425
Recording Fees	\$115

Future Costs Paid at Closing

E. BILLS DUE AT CLOSING

Mortgage Insurance Premium (<u>0</u> months)	\$0
Homeowner's Insurance Premium (<u>6</u> months)	\$525
Prepaid Interest (\$20 . 78 per day for 15 days)	\$312

F. PAYMENT INTO ESCROW FOR FUTURE BILLS

Homeowner's Insurance	2 mo. at \$87.50 per month	\$175
Mortgage Insurance	2 mo. at \$86.93 per month	\$174
Tax & Assessment	2 mo. at \$222 per month	\$444
HOA/Condo/Co-op	0 mo. at \$0 per month	\$0

Estimated Closing Costs

A + B + C +D	\$6,151
Lender Credits	\$0
Estimated Closing Costs	\$6,151

Cash Needed to Close

Estimated Closing Costs	\$6,151
E + F	\$1,630
Down Payment (minus \$9,000 deposit)	\$10,000
Seller Credits	-\$0
Closing Costs to be Financed	-\$0
Cash Needed to Close	\$17,781

You have no obligation to choose this loan. Shop around to find the best loan for you.

Round 3 – Loan Estimate design 2, 7 year with balloon payment, example D, page 1

POPLAR SAVINGS BANK

4321 Random Boulevard • Somecity, IL 54321

DATE ISSUED 08/01/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the rate. All other estimated closing costs expire on **08/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White
Jane Johnson
PROPERTY 456 Avenue A
Anytown, IL 12345

LOAN TERM 7 years
PRODUCT Fixed Rate Balloon
PURPOSE Purchase
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this increase after closing?
Loan Amount	\$176,000	NO
Interest Rate	4.625%	NO
Monthly Loan Payment	\$1,038.36	NO
Principal and Interest	\$904.89	
Mortgage Insurance	+ \$133.47	
		Does this loan have these features?
Prepayment Penalty		NO
Balloon Payment		YES • You will have to pay \$154,616 at the end of year 7.

Projected Payments	Expect to make these payments.	
AT CLOSING	YEARS 1 – 7	FINAL PAYMENT
\$15,376	\$1,038 monthly loan payment	\$154,616 balloon payment
Cash Needed to Close Includes estimated closing costs. See page 2 for details.	Estimated Taxes and Insurance \$338 a month	
	<input checked="" type="checkbox"/> Escrow. Your total monthly payment will include taxes, insurance, and assessments. Expect to pay a total of \$1,376 a month to start. <input type="checkbox"/> No escrow. You must pay your taxes, insurance, and assessments separately from your loan payment.	

Comparisons	Use this information to compare this loan with others.	
Estimated Closing Costs	\$8,393	See page 2 for details.
Annual Percentage Rate (APR)	6.06%	This is not your interest rate. This rate expresses your costs over 30 years.
In 5 Years	\$70,695	Total you will have paid in any principal, interest, mortgage insurance, and fees.
	\$15,261	Principal you will have paid off.

For additional information and tools, visit www.consumerfinance.gov/futureurl

Round 3 – Loan Estimate design 2, 7 year with balloon payment, example D, page 2

CREDITOR Poplar Savings Bank NMLS ID LOAN ID # 1330172608
 LOAN OFFICER Joe Smith NMLS ID 76543210 PAGE 2
 PHONE 555-123-4444 EMAIL joesmith@poplarsavingsbank.com

Costs and Taxes	
A. ORIGATION CHARGES	
Points <u>0</u> %	\$0
Administration Fee	\$750
Processing Fee	\$200
Underwriting Fee	\$1,200
Verification Fee	\$800

B. SERVICES YOU CANNOT SHOP FOR	
Tax Status Research Fee	\$110
Flood Determination Fee	\$50
Appraisal Fee	\$685
Desk Review Fee	\$125
Document Preparation Fee	\$135
Credit Report Fee	\$35

C. SERVICES YOU CAN SHOP FOR	
Lender's Title Policy	\$511
All Other Title Service Fees	\$1,531
Pest Inspection Fee	\$106
Survey Fee	\$215
Borrower's Attorney Fee	\$400

D. TAXES AND OTHER GOVERNMENT FEES	
Transfer Taxes	\$1,425
Recording Fees	\$115

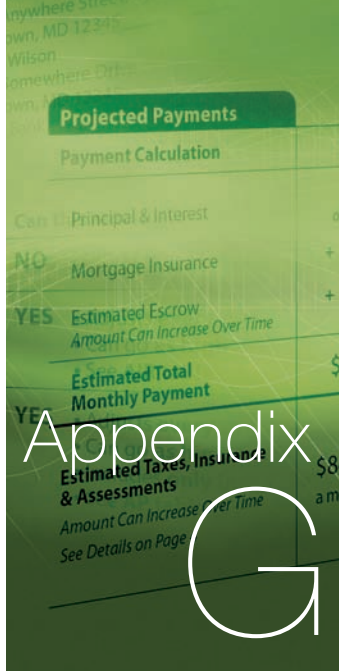
Future Costs Paid at Closing	
E. BILLS DUE AT CLOSING	
Mortgage Insurance Premium (<u>0</u> months)	\$0
Homeowner's Insurance Premium (<u>6</u> months)	\$700
Prepaid Interest (\$22 . 61 per day for 15 days)	\$339

F. PAYMENT INTO ESCROW FOR FUTURE BILLS		
Homeowner's Insurance	2 mo. at \$116 . 67 per month	\$233
Mortgage Insurance	2 mo. at \$133 . 47 per month	\$267
Tax & Assessment	2 mo. at \$222 per month	\$444
HOA/Condo/Co-op	0 mo. at \$0 per month	\$0

Estimated Closing Costs	
A + B + C +D	\$8,393
Lender Credits	\$0
Estimated Closing Costs	\$8,393

Cash Needed to Close	
Estimated Closing Costs	\$8,393
E + F	\$1,983
Down Payment (minus \$9,000 deposit)	\$10,000
Seller Credits	-\$0
Closing Costs to be Financed	-\$5,000
Cash Needed to Close	\$15,376

You have no obligation to choose this loan. Shop around to find the best loan for you.



Appendix



Loan Estimates for Round 4 – Springfield, MA

Round 4 – Loan Estimate design 1, 7/1 ARM with escrow, example A, page 1

BALSAM HOME LOANS

4321 Random Boulevard • Somecity, MA 54321

DATE ISSUED 09/12/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
 PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 30 years
 PURPOSE Refinance
 PRODUCT 7/1 Adjustable Rate
 LOAN TYPE Conventional FHA VA

Key Terms

Can this amount increase after closing?

Loan Amount	\$121,000	NO
Interest Rate	3.75% for 7 years	YES <ul style="list-style-type: none"> • Adjusts every year starting in year 8 • Can go as high as 9% in year 10 • See details on page 2
Monthly Loan Payment Principal and Interest Mortgage Insurance Taxes and Insurance	\$647.10 \$560.38 + \$ 86.72 see below	YES <ul style="list-style-type: none"> • Adjusts every year starting in year 8 • Can go as high as \$884 in year 10
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

ESTIMATED CASH TO CLOSE	MONTHLY LOAN PAYMENTS			
	YEARS 1-7	YEAR 8	YEAR 9	YEARS 10-30
\$5,451 Includes \$3,540 in estimated settlement costs. See page 2.	\$647.10	\$740 max \$588 min	\$868 max \$588 min	\$884 max \$588 min
PLUS TAXES AND INSURANCE Estimated \$266 a month to start				
<input checked="" type="checkbox"/> Escrow. Expect to pay \$913 for a total monthly payment to start (\$266 + \$647). <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.				

Comparisons

Use these measures to compare this loan with other loans.

In 5 Years	\$42,366 Total you will have paid in principal, interest, mortgage insurance, and fees. \$12,007 Principal you will have paid off.
Annual Percentage Rate (APR)	4.85% This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	79.7% This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 4 – Loan Estimate design 1, 7/1 ARM with escrow, example A, page 2

LOAN ID # 1330172608
PAGE 2

Estimating Settlement Costs

A. ORIGINATION CHARGES	\$1,400
0 Points for the Interest Rate	\$0
Origination Fees to Lender	\$1,400
Lender Credits	\$0

Once you lock the interest rate, the total for this section cannot increase at closing.

B. SERVICES YOU CANNOT SHOP FOR	\$852
----------------------------------------	--------------

Appraisal Fee	
Credit Report Fee	
Lender's Attorney	
Other Services Required by Lender	

The total for this section cannot be higher than \$937 at closing.

C. SERVICES YOU CAN SHOP FOR	\$1,288
-------------------------------------	----------------

Title Service Fees	\$685
Lender's Title Policy	\$303
Borrower's Attorney	\$300

The total for this section cannot be higher than \$1,417 at closing. But if you choose your own provider, the quoted price does not apply for that service.

Estimated Settlement Costs (A + B + C)	\$3,540
-----------------------------------------------	----------------

Calculating Cash to Close

D. TAXES AND OTHER GOVERNMENT FEES	\$250
Transfer Taxes	\$0
Recording Fees	\$175
Other Taxes and Government Fees	\$75

E. PREPAIDS AND ESCROW	\$1,661
-------------------------------	----------------

Prepaid Interest (\$12.60 per day for 15 days @ 3.75%)	\$189
Mortgage Insurance Premium (0 months)	\$0
Homeowner's Insurance Premium (6 months)	\$415

Mortgage Insurance	\$86.72	per month for 3 mo.	\$260
Homeowner's Insurance	\$69.00	per month for 3 mo.	\$207
Tax & Assessments	\$196.52	per month for 3 mo.	\$590
HOA/Condo/Co-op	\$0.00	per month for 0 mo.	\$0

CALCULATION

Estimated Settlement Costs	\$3,540
D + E	\$1,911
Down Payment/Funds from Borrower	\$0
Deposit	-\$0
Cash to Borrower	-\$0
Seller Credits	-\$0
Other Credits and Adjustments	-\$0
Closing Costs to be Financed	-\$0

Estimated Cash to Close	\$5,451
--------------------------------	----------------

Adjustable Interest Rate Information

Index + Margin	LIBOR + 4%
Initial Interest Rate	3.75%
Minimum/Maximum Interest Rate	4.25% / 9%
Limits on Interest Rate Changes	
First Change	3%
Each Subsequent Change	2%
Change Frequency	
First Change	Beginning of 85th month
Each Subsequent Change	Every 12th month after first change

Round 4 – Loan Estimate design 1, 3/3 ARM with escrow, example B, page 1

BEECH HOME LOANS

4321 Random Boulevard • Somerville, MA 04821

DATE ISSUED 09/12/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 30 years
PURPOSE Refinance
PRODUCT 3/3 Adjustable Rate
LOAN TYPE Conventional FHA VA _____

Key Terms		Can this amount increase after closing?	
Loan Amount	\$121,000	NO	
Interest Rate	3.375% for 3 years	YES	<ul style="list-style-type: none"> • Adjusts every 3 years starting in year 4 • Can go as high as 9% in year 10 • See details on page 2
Monthly Loan Payment	\$621.67	YES	<ul style="list-style-type: none"> • Adjusts every 3 years starting in year 4 • Can go as high as \$903 in year 10
Principal and Interest	\$534.95		
Mortgage Insurance	+ \$ 86.72		
Taxes and Insurance	see below		
Does the loan have these features?			
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments				
ESTIMATED CASH TO CLOSE	MONTHLY LOAN PAYMENTS			
	YEARS 1-3	YEARS 4-6	YEARS 7-9	YEARS 10-30
\$5,363	\$621.67	\$752 max \$727 min	\$884 max \$640 min	\$903 max \$640 min
Includes \$4,414 in estimated settlement costs. See page 2.				
PLUS TAXES AND INSURANCE				
Estimated \$232 a month to start				
<input checked="" type="checkbox"/> Escrow. Expect to pay \$854 for a total monthly payment to start (\$232 + \$622). <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.				

Comparisons		Use these measures to compare this loan with other loans.
In 5 Years	\$44,771	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$11,344	Principal you will have paid off.
Annual Percentage Rate (APR)	5.53%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	93.3%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 4 – Loan Estimate design 1, 3/3 ARM with escrow, example B, page 2

LOAN ID # 1330172608

PAGE 2

Estimating Settlement Costs

A. ORIGINATION CHARGES	\$2,160
1 Point for the Interest Rate	\$1,210
Origination Fees to Lender	\$200
Origination Fees to Broker	\$750
Lender Credits	\$0

Once you lock the interest rate, the total for this section cannot increase at closing.

B. SERVICES YOU CANNOT SHOP FOR	\$689
----------------------------------------	--------------

Appraisal Fee	
Credit Report Fee	
Lender's Attorney	
Other Services Required by Lender	

The total for this section cannot be higher than \$758 at closing.

C. SERVICES YOU CAN SHOP FOR	\$1,565
-------------------------------------	----------------

Title Service Fees	\$950
Lender's Title Policy	\$290
Borrower's Attorney	\$325

The total for this section cannot be higher than \$1,722 at closing. But if you choose your own provider, the quoted price does not apply for that service.

Estimated Settlement Costs (A + B + C)	\$4,414
-----------------------------------------------	----------------

Calculating Cash to Close

D. TAXES AND OTHER GOVERNMENT FEES	\$250
Transfer Taxes	\$0
Recording Fees	\$175
Other Taxes and Government Fees	\$75

E. PREPAIDS AND ESCROW	\$699
-------------------------------	--------------

Prepaid Interest (\$11.34 per day for 15 days @ 3.375%)	\$170
Mortgage Insurance Premium (0 months)	\$0
Homeowner's Insurance Premium (6 months)	\$210

Mortgage Insurance	\$86.72	per month for 1 mo.	\$87
Homeowner's Insurance	\$35.00	per month for 1 mo.	\$35
Tax & Assessments	\$196.52	per month for 1 mo.	\$197
HOA/Condo/Co-op	\$0.00	per month for 0 mo.	\$0

CALCULATION

Estimated Settlement Costs	\$4,414
D + E	\$949
Down Payment/Funds from Borrower	\$0
Deposit	-\$0
Cash to Borrower	-\$0
Seller Credits	-\$0
Other Credits and Adjustments	-\$0
Closing Costs to be Financed	-\$0

Estimated Cash to Close	\$5,363
--------------------------------	----------------

Adjustable Interest Rate Information

Index + Margin	COFI+ 4%
Initial Interest Rate	3.375%
Minimum/Maximum Interest Rate	5% / 9%

Limits on Interest Rate Changes

First Change	2%
Each Subsequent Change	2%

Change Frequency

First Change	Beginning of 37th month
Each Subsequent Change	Every 36th month after first change

Round 4 – Loan Estimate design 1, 15 year with escrow, example C, page 1

FICUS HOME LOANS

4321 Random Boulevard • Somerville, MA 02145

DATE ISSUED 09/12/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 15 years
PURPOSE Refinance
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____

Key Terms		Can this amount increase after closing?
Loan Amount	\$121,000	NO
Interest Rate	3.375%	NO
Monthly Loan Payment Principal and Interest Mortgage Insurance Taxes and Insurance	\$934.24 \$857.61 + \$ 76.63 see below	NO
Does the loan have these features?		
Prepayment Penalty	YES • As high as \$2,420 if you pay off your loan during the first 2 years	
Balloon Payment	NO	

Projected Payments	
ESTIMATED CASH TO CLOSE	MONTHLY LOAN PAYMENTS
\$5,547 Includes \$3,647 in estimated settlement costs. See page 2.	YEARS 1-15 \$934.24
	PLUS TAXES AND INSURANCE Estimated \$313 a month to start
	<input checked="" type="checkbox"/> Escrow. Expect to pay \$1,247 for a total monthly payment to start (\$313 + \$934). <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.

Comparisons		Use these measures to compare this loan with other loans.
In 5 Years	\$57,403 \$33,759	Total you will have paid in principal, interest, mortgage insurance, and fees. Principal you will have paid off.
Annual Percentage Rate (APR)	3.96%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	27.6%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 4 – Loan Estimate design 1, 15 year with escrow, example C, page 2

LOAN ID # 1330172608

PAGE 2

Estimating Settlement Costs

A. ORIGINATION CHARGES \$1,810

1 Point for the Interest Rate	\$1,210
Origination Fees to Lender	\$600
Lender Credits	\$0

Once you lock the interest rate, the total for this section cannot increase at closing.

B. SERVICES YOU CANNOT SHOP FOR \$490

Appraisal Fee	
Credit Report Fee	
Lender's Attorney	
Other Services Required by Lender	

The total for this section cannot be higher than \$539 at closing.

C. SERVICES YOU CAN SHOP FOR \$1,347

Title Service Fees	\$732
Lender's Title Policy	\$315
Borrower's Attorney	\$300

The total for this section cannot be higher than \$1,482 at closing. But if you choose your own provider, the quoted price does not apply for that service.

Estimated Settlement Costs (A + B + C) \$3,647

Calculating Cash to Close

D. TAXES AND OTHER GOVERNMENT FEES \$250

Transfer Taxes	\$0
Recording Fees	\$175
Other Taxes and Government Fees	\$75

E. PREPAIDS AND ESCROW \$1,650

Prepaid Interest (\$11.34 per day for 15 days @ 3.375%)	\$170
Mortgage Insurance Premium (0 months)	\$0
Homeowner's Insurance Premium (6 months)	\$700

Mortgage Insurance	\$76.63	per month for 2 mo.	\$153
Homeowner's Insurance	\$116.67	per month for 2 mo.	\$233
Tax & Assessments	\$197.00	per month for 2 mo.	\$394
HOA/Condo/Co-op	\$0.00	per month for 0 mo.	\$0

CALCULATION

Estimated Settlement Costs	\$3,647
D + E	\$1,900
Down Payment/Funds from Borrower	\$0
Deposit	-\$0
Cash to Borrower	-\$0
Seller Credits	-\$0
Other Credits and Adjustments	-\$0
Closing Costs to be Financed	-\$0

Estimated Cash to Close \$5,547

Round 4 – Loan Estimate design 1, 15 year, bi-weekly payments, no escrow, example D, page 1

FIR HOME LOANS

4321 Random Boulevard • Somecity, MA 54321

DATE ISSUED 09/12/2011 LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 15 years
PURPOSE Refinance
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____

Key Terms		Can this amount increase after closing?
Loan Amount	\$121,000	NO
Interest Rate	3.625%	NO
Bi-weekly Loan Payment	\$474.55	NO
Principal and Interest	\$436.23	
Mortgage Insurance	+ \$ 38.32	
Taxes and Insurance	see below	
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments	
ESTIMATED CASH TO CLOSE	BI-WEEKLY LOAN PAYMENTS
\$633	YEARS 1-15
Includes \$0 in estimated settlement costs. See page 2.	\$474.55
	PLUS TAXES AND INSURANCE
	Estimated \$115 bi-weekly to start
	<input type="checkbox"/> Escrow. Expect to pay \$590 for a total bi-weekly payment to start (\$115 + \$475).
	<input checked="" type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.

Comparisons		Use these measures to compare this loan with other loans.
In 5 Years	\$58,702	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$38,421	Principal you will have paid off.
Annual Percentage Rate (APR)	4.16%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	26.5%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 4 – Loan Estimate design 1, 15 year, bi-weekly payments, no escrow, example D, page 2

LOAN ID # 1330172608
PAGE 2

Estimating Settlement Costs

A. ORIGATION CHARGES	- \$2,100
0 Points for the Interest Rate	\$0
Origination Fees to Lender	\$1,050
Lender Credits	- \$3,150

Once you lock the interest rate, the total for this section cannot increase at closing.

B. SERVICES YOU CANNOT SHOP FOR	\$610
----------------------------------------	--------------

Appraisal Fee	
Credit Report Fee	
Lender's Attorney	
Other Services Required by Lender	

The total for this section cannot be higher than \$671 at closing.

C. SERVICES YOU CAN SHOP FOR	\$1,490
-------------------------------------	----------------

Title Service Fees	\$890
Lender's Title Policy	\$300
Borrower's Attorney	\$300

The total for this section cannot be higher than \$1,639 at closing. But if you choose your own provider, the quoted price does not apply for that service.

Estimated Settlement Costs (A + B + C)	\$0
-----------------------------------------------	------------

Calculating Cash to Close

D. TAXES AND OTHER GOVERNMENT FEES	\$250
Transfer Taxes	\$0
Recording Fees	\$175
Other Taxes and Government Fees	\$75

E. PREPAIDS AND ESCROW	\$383
-------------------------------	--------------

Prepaid Interest (\$12.18 per day for 15 days @ 3.625%)	\$183
Mortgage Insurance Premium (0 months)	\$0
Homeowner's Insurance Premium (6 months)	\$200

Mortgage Insurance	\$0	per month for 0 mo.	\$0
Homeowner's Insurance	\$0	per month for 0 mo.	\$0
Tax & Assessments	\$0	per month for 0 mo.	\$0
HOA/Condo/Co-op	\$0	per month for 0 mo.	\$0

CALCULATION

Estimated Settlement Costs	\$0
D + E	\$633
Down Payment/Funds from Borrower	\$0
Deposit	- \$0
Cash to Borrower	- \$0
Seller Credits	- \$0
Other Credits and Adjustments	- \$0
Closing Costs to be Financed	- \$0

Estimated Cash to Close	\$633
--------------------------------	--------------

Round 4 – Loan Estimate design 2, 7/1 ARM with escrow, example A, page 1

LAUREL HOME LOANS

4321 Random Boulevard • Somecity, MA 54321

DATE ISSUED 09/12/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 30 years
PURPOSE Refinance
PRODUCT 7/1 Adjustable Rate
LOAN TYPE Conventional FHA VA

Key Terms		Can this amount increase after closing?	
Loan Amount	\$121,000	NO	
Interest Rate	3.75% for 7 years	YES	<ul style="list-style-type: none"> Adjusts every year starting in year 8 Can go as high as 9% in year 10 See details on page 2
Monthly Loan Payment	\$647.10	YES	<ul style="list-style-type: none"> Adjusts every year starting in year 8 Can go as high as \$884 in year 10
Principal and Interest	\$560.38		
Mortgage Insurance	+ \$86.72		
Taxes and Insurance	see below		
		Can this amount increase before closing?	
Cash to Close	\$5,451	YES	• See details on page 2
Includes Settlement Costs	\$3,540		
		Does the loan have these features?	
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments

MONTHLY LOAN PAYMENTS			
YEARS 1-7	YEAR 8	YEAR 9	YEARS 10-30
\$647.10	\$740 max \$588 min	\$868 max \$588 min	\$884 max \$588 min

PLUS TAXES AND INSURANCE

Estimated \$266 a month to start.

- Escrow. Expect to pay \$913 for a total monthly payment to start (\$266 + \$647).
 No escrow. You must pay your taxes and insurance separately from your loan payments.

Comparisons

Use these measures to compare this loan with other loans.

In 5 Years	\$42,366 Total you will have paid in principal, interest, mortgage insurance and fees. \$12,007 Principal you will have paid off.
Annual Percentage Rate (APR)	4.85% This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	79.7% This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 4 – Loan Estimate design 2, 7/1 ARM with escrow, example A, page 2

Calculating Your Estimated Cash to Close		LAUREL HOME LOANS		Loan ID#1330172608
Origination Charges	0 Points for the Interest Rate	\$	0	
	Origination Fees to Lender		1,400	
	Lender Credits		0	
	<i>Once you lock the interest rate, the total for this section cannot increase at closing.</i>			\$1,400
Services You Cannot Shop For	Appraisal Fee			+
	Credit Report Fee			
	Lender's Attorney			Other Services Required by Lender
<i>The total for this section cannot be higher than \$937 at closing.</i>				
Services You Can Shop For	Title Services Fee	\$	685	
	Lender's Title Policy		303	
	Borrower's Attorney		300	
				+
<i>The total for this section cannot be higher than \$1,417 at closing. But if you choose your own provider, the quoted price does not apply for that service.</i>				\$1,288 =
Taxes and Insurance	Transfer Taxes	\$	0	+
	Recording Fees		175	
	Other Taxes and Government Fees		75	\$250
Prepays and Escrow	Prepaid Interest	\$ 12.60/day (15 days @ 3.75%)	\$ 189	+
	Mortgage Insurance Premium		0	\$604
	Homeowner's Insurance Premium (6 months)		415	
	Mortgage Insurance	\$ 86.72/month for 3 months	\$ 260	+
	Homeowner's Insurance	\$ 69.00/month for 3 months	207	\$1,057
	Tax & Assessments	\$196.52/month for 3 months	590	
	HOA/Condo/Co-op	\$ 0.00/month for 0 months	0	
Adjustments	Down Payment/Funds from Borrower	\$	0	
	Deposit		0	
	Cash to Borrower		0	+
	Seller Credits		0	
	Other Credits and Adjustments		0	
	Closing Costs to be Financed		0	\$0 =
				Estimated Cash to Close \$5,451
Adjustable Interest Rate Information				
Index + Margin	LIBOR+ 4%			
Initial Interest Rate	3.75%			
Minimum/Maximum Interest Rate	4.25%/9%			
Limits on Interest Rate Changes				
First Change	3%			
Each Subsequent Change	2%			
Change Frequency				
First Change	Beginning of 85th month			
Each Subsequent Change	Every 12th month after first change			

Round 4 – Loan Estimate design 2, 3/3 ARM with escrow, example B, page 1

LILAC HOME LOANS

4321 Random Boulevard • Somercity, MA 54321

DATE ISSUED 09/12/2011 LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 30 years
PURPOSE Refinance
PRODUCT 3/3 Adjustable Rate
LOAN TYPE Conventional FHA VA

Key Terms		Can this amount increase after closing?	
Loan Amount	\$121,000	NO	
Interest Rate	3.375% for 3 years	YES	<ul style="list-style-type: none"> Adjusts every 3 years starting in year 4 Can go as high as 9% in year 10 See details on page 2
Monthly Loan Payment	\$621.67	YES	<ul style="list-style-type: none"> Adjusts every 3 years starting in year 4 Can go as high as \$903 in year 10
Principal and Interest	\$534.95		
Mortgage Insurance	+ \$86.72		
Taxes and Insurance	see below		
		Can this amount increase before closing?	
Cash to Close	\$5,363	YES	• See details on page 2
Includes Settlement Costs	\$4,414		
		Does the loan have these features?	
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments

MONTHLY LOAN PAYMENTS			
YEARS 1-3	YEARS 4-6	YEARS 7-9	YEARS 10-30
\$621.67	\$752 max \$727 min	\$884 max \$640 min	\$903 max \$640 min

PLUS TAXES AND INSURANCE
Estimated \$232 a month to start.

- Escrow. Expect to pay \$854 for a total monthly payment to start (\$232 + \$622).
 No escrow. You must pay your taxes and insurance separately from your loan payments.

Comparisons

Use these measures to compare this loan with other loans.

In 5 Years	\$44,771 Total you will have paid in principal, interest, mortgage insurance and fees. \$11,344 Principal you will have paid off.
Annual Percentage Rate (APR)	5.53% This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	93.3% This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

EVOLUTION OF THE INTEGRATED TILA/RESPA DISCLOSURES

Round 4 – Loan Estimate design 2, 3/3 ARM with escrow, example B, page 2

Calculating Your Estimated Cash to Close			LILAC HOME LOANS		
			Loan ID#1330172608		
Origination Charges	1 Point for the Interest Rate	\$	1,210		
	Origination Fees to Lender		200		
	Origination Fees to Broker		750		
	Lender Credits		0		
	<i>Once you lock the interest rate, the total for this section cannot increase at closing.</i>				\$2,160
Services You Cannot Shop For	Appraisal Fee				
	Credit Report Fee				
	Lender's Attorney				
	Other Services Required by Lender				
<i>The total for this section cannot be higher than \$758 at closing.</i>				\$689	
Services You Can Shop For	Title Services Fee	\$	950		
	Lender's Title Policy		290		
	Borrower's Attorney		325		
				+	
<i>The total for this section cannot be higher than \$1,722 at closing. But if you choose your own provider, the quoted price does not apply for that service.</i>				\$1,565	
				=	
				Estimated Settlement Costs	
				\$4,414	
Taxes and Insurance	Transfer Taxes	\$	0		
	Recording Fees		175		
	Other Taxes and Government Fees		75		
				\$250	
Prepays and Escrow	Prepaid Interest	\$ 11.34/day (15 days @ 3.375%)	\$	170	
	Mortgage Insurance Premium			0	
	Homeowner's Insurance Premium (6 months)			210	
					\$380
	Mortgage Insurance	\$ 86.72/month for 1 month	\$	87	
	Homeowner's Insurance	\$ 35.00/month for 1 month		35	
	Tax & Assessments	\$196.52/month for 1 month		197	
HOA/Condo/Co-op	\$ 0.00/month for 0 months		0		
				\$319	
Adjustments	Down Payment/Funds from Borrower	\$	0		
	Deposit		0		
	Cash to Borrower		0		
	Seller Credits		0		
	Other Credits and Adjustments		0		
	Closing Costs to be Financed		0		
				\$0	
				=	
				Estimated Cash to Close	
				\$5,363	
Adjustable Interest Rate Information					
Index + Margin	COFI + 4%				
Initial Interest Rate	3.375%				
Minimum/Maximum Interest Rate	5%/9%				
Limits on Interest Rate Changes					
First Change	2%				
Each Subsequent Change	2%				
Change Frequency					
First Change	Beginning of 37th month				
Each Subsequent Change	Every 36th month after first change				

Round 4 – Loan Estimate design 2, 15 year with escrow, example C, page 1

PECAN HOME LOANS

4321 Random Boulevard • Somecity, MA 54321

DATE ISSUED 09/12/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 15 years
PURPOSE Refinance
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA

Key Terms		Can this amount increase after closing?
Loan Amount	\$121,000	NO
Interest Rate	3.375%	NO
Monthly Loan Payment	\$934.24	NO
Principal and Interest	\$857.61	
Mortgage Insurance	+ \$76.63	
Taxes and Insurance	see below	
		Can this amount increase before closing?
Cash to Close	\$5,547	YES • See details on page 2
Includes Settlement Costs	\$3,647	
		Does the loan have these features?
Prepayment Penalty		YES • As high as \$2,240 if you pay off your loan during the first 2 years
Balloon Payment		NO

Projected Payments	
MONTHLY LOAN PAYMENTS	
YEARS 1-15	
	\$934.24
PLUS TAXES AND INSURANCE	
Estimated \$313 a month to start.	
<input checked="" type="checkbox"/> Escrow. Expect to pay \$1,247 for a total monthly payment to start (\$313 + \$934).	
<input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$57,403	Total you will have paid in principal, interest, mortgage insurance and fees.
	\$33,759	Principal you will have paid off.
Annual Percentage Rate (APR)	3.96%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	27.6%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 4 – Loan Estimate design 2, 15 year with escrow, example C, page 2

Calculating Your Estimated Cash to Close		PECAN HOME LOANS		
		Loan ID#1330172608		
Origination Charges	1 Point for the Interest Rate	\$ 1,210		
	Origination Fees to Lender	600		
	Lender Credits	0		
	<i>Once you lock the interest rate, the total for this section cannot increase at closing.</i>		\$1,810	
Services You Cannot Shop For	Appraisal Fee			
	Credit Report Fee		+	
	Lender's Attorney			
	Other Services Required by Lender		+	
<i>The total for this section cannot be higher than \$539 at closing.</i>		\$490		
Services You Can Shop For	Title Services Fee	\$ 732		
	Lender's Title Policy	315		
	Borrower's Attorney	300		
			+	
<i>The total for this section cannot be higher than \$1,482 at closing. But if you choose your own provider, the quoted price does not apply for that service.</i>		\$1,347	=	
Taxes and Insurance	Transfer Taxes	\$ 0	+	
	Recording Fees	175		
	Other Taxes and Government Fees	75	\$250	
Prepays and Escrow	Prepaid Interest	\$ 11.34/day (15 days @ 3.375%) \$ 170	+	
	Mortgage Insurance Premium	0		
	Homeowner's Insurance Premium (6 months)	700	\$870	
	Mortgage Insurance	\$ 76.63/month for 2 months \$ 153	+	
	Homeowner's Insurance	\$ 116.67/month for 2 months 233		
	Tax & Assessments	\$ 197.00/month for 2 months 394		
	HOA/Condo/Co-op	\$ 0.00/month for 0 months 0	\$780	
Adjustments	Down Payment/Funds from Borrower	\$ 0		
	Deposit	0		
	Cash to Borrower	0	+	
	Seller Credits	0		
	Other Credits and Adjustments	0		
	Closing Costs to be Financed	0	\$0	=
			\$3,647	=
		Estimated Settlement Costs		
		\$3,647		
		Estimated Cash to Close		
		\$5,547		

Round 4 – Loan Estimate design 2, 15 year, bi-weekly payments, no escrow, example D, page 1

POPLAR HOME LOANS

4321 Random Boulevard • Somecity, MA 54321

DATE ISSUED 09/12/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **09/26/2011** at 3:00 p.m. EST.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, MA 12345

LOAN TERM 15 years
PURPOSE Refinance
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA

Key Terms		Can this amount increase after closing?
Loan Amount	\$121,000	NO
Interest Rate	3.625%	NO
Bi-weekly Loan Payment	\$474.55	NO
Principal and Interest	\$436.23	
Mortgage Insurance	+ \$38.32	
Taxes and Insurance	see below	
		Can this amount increase before closing?
Cash to Close	\$633	YES • See details on page 2
Includes Settlement Costs	\$0	
		Does the loan have these features?
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

BI-WEEKLY LOAN PAYMENTS

YEARS 1-15

\$474.55

PLUS TAXES AND INSURANCE

Estimated \$115 bi-weekly to start.

Escrow. Expect to pay \$590 for a total bi-weekly payment to start (\$115 + \$475).

No escrow. You must pay your taxes and insurance separately from your loan payments.

Comparisons

Use these measures to compare this loan with other loans.

In 5 Years	\$58,702	Total you will have paid in principal, interest, mortgage insurance and fees.
	\$38,421	Principal you will have paid off.
Annual Percentage Rate (APR)	4.16%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	26.5%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 4 – Loan Estimate design 2, 15 year, bi-weekly payments, no escrow, example D, page 2

Calculating Your Estimated Cash to Close		POPLAR HOME LOANS	
		Loan ID#1330172608	
Origination Charges	0 Points for the Interest Rate	\$ 0	
	Origination Fees to Lender	1,050	
	Lender Credits	-3,150	
	<i>Once you lock the interest rate, the total for this section cannot increase at closing.</i>		-\$2,100
Services You Cannot Shop For	Appraisal Fee		
	Credit Report Fee		+
	Lender's Attorney		
	Other Services Required by Lender		+
<i>The total for this section cannot be higher than \$671 at closing.</i>		\$610	
Services You Can Shop For	Title Services Fee	\$ 890	
	Lender's Title Policy	300	
	Borrower's Attorney	300	
			+
<i>The total for this section cannot be higher than \$1,639 at closing. But if you choose your own provider, the quoted price does not apply for that service.</i>		\$1,490	=
Taxes and Insurance	Transfer Taxes	\$ 0	+
	Recording Fees	175	
	Other Taxes and Government Fees	75	\$250
Prepays and Escrow	Prepaid Interest	\$ 12.18/day (15 days @ 3.625%) \$ 183	+
	Mortgage Insurance Premium	0	
	Homeowner's Insurance Premium (6 months)	200	\$383
	Mortgage Insurance	\$ 0/month for 0 months \$ 0	
	Homeowner's Insurance	\$ 0/month for 0 months 0	+
	Tax & Assessments	\$ 0/month for 0 months 0	
	HOA/Condo/Co-op	\$ 0/month for 0 months 0	\$0
Adjustments	Down Payment/Funds from Borrower	\$ 0	
	Deposit	0	
	Cash to Borrower	0	+
	Seller Credits	0	
	Other Credits and Adjustments	0	
	Closing Costs to be Financed	0	\$0
			=
			\$633
		=	Estimated Settlement Costs
			\$0

Round 4 – Loan Estimate, page 3 example

LOAN OFFICER	Joe Smith	CREDITOR	Ficus Home Loans	LOAN ID #	1330172608
PHONE	555-123-4444	NMLS ID	MC98765		
EMAIL	joesmith@ficushomeloans.com				
NMLS ID	MC54321				

Federal Disclosures About This Loan

Loan Information

Late Payment: If your payment is more than 15 days late, we will charge a late fee of \$50.

Servicing: We intend to service your loan. You will make your payments to us.
 We intend to assign, sell, or transfer servicing of your loan.

Assumption: If you sell or transfer your house to another person, we
 will allow, under certain conditions, this person to assume this loan on the original terms.
 will not allow this person to assume this loan on the original terms.

Security Interest: You are granting us a security interest in 456 Avenue A, Anytown, MA 12345. You may lose this property if you do not make all of your payments or satisfy other obligations for this loan.

Other Information

Appraisals: We will promptly give you a copy of any written property appraisals or valuations you pay for, even if the loan does not close.

Refinance: We do not guarantee that you will be able to refinance to lower your rate and payments in the future.

Contract Details: See your contract documents for information on

- our rights if you fail to make your payments,
- other ways you may default on the loan,
- when we can require repayment of the loan before the scheduled date, and
- the rules for making payments before they are due.

Tax Deductions: If you borrow more than your home is worth, you may not be able to deduct interest on the amount above the home's fair market value from your federal income tax. Consult a tax advisor to find out if you may deduct the interest you pay.

Verify Receipt

You do not have to accept this loan because you received this disclosure, signed a loan application, or sign below.

Applicant Signature

Date

Co-Applicant Signature

Date



Loan Estimates for Round 5 – Albuquerque, NM

Round 5 – Loan Estimate design 1, 3/3 ARM with no escrow, example A, page 1

BALSAM BANK

4321 Random Boulevard • Somecity, NM 54321

DATE ISSUED 10/17/2011 LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **10/31/2011** at 3:00 p.m. MDT.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, NM 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 3/3 Adjustable Rate
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this amount increase after closing?	
Loan Amount	\$162,000	NO	
Interest Rate	3.5% for 3 years	YES	<ul style="list-style-type: none"> Adjusts every 3 years starting in year 4 Can go as high as 6% in year 7 See AIR table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$727.46	YES	<ul style="list-style-type: none"> Adjusts every 3 years starting in year 4 Can go as high as \$947 in year 7
		Does the loan have these features?	
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments				
Payment Calculation	Years 1-3	Years 4-6	Years 7-9	Years 10-30
Principal & Interest	\$727.46	\$707 min \$904 max	\$707 min \$947 max	\$707 min \$947 max
Mortgage Insurance	+ 82	+ 82	+ 82	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 0	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	\$809	\$789–\$986	\$789–\$1,029	\$707–\$947
Escrow Information for Estimated Taxes & Insurance	\$212 a month	<input type="checkbox"/> Escrow. Your monthly payment includes your taxes and insurance. <input checked="" type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.		

Closing Costs	
Estimated Cash to Close	\$15,039 Includes \$6,080 in estimated settlement costs. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 5 – Loan Estimate design 1, 3/3 ARM with no escrow, example A, page 2

Calculating Settlement Costs

A. Origination Charges		\$1,305
.25 Points %	\$405	
Processing Fee	\$100	
Underwriting Fee	\$600	
Verification Fee	\$200	

B. Services You Cannot Shop For		\$475
Credit Report Fee	\$5	
Appraisal Fee	\$425	
Tax Status Research Fee	\$30	
Flood Determination Fee	\$15	

C. Services You Can Shop For		\$4,300
Survey Fee	\$75	
Pest Inspection Fee	\$125	
Settlement Agent Fee	\$473	
Title – Search	\$800	
Title – Examination	\$1,377	
Title – Lender’s Policy	\$500	
Title – Owner’s Policy (optional)	\$950	

Calculation

A + B + C	\$6,080
Lender Credits	– \$0
Estimated Settlement Costs	\$6,080

Calculating Cash to Close

D. Taxes and Other Government Fees		\$85
Transfer Taxes	\$0	
Recording Fees	\$85	
Other Taxes and Government Fees	\$0	

E. Prepaids		\$874
Property Taxes (<u> 0 </u> months)	\$0	
Homeowner’s Insurance Premium (<u> 6 </u> months)	\$638	
Mortgage Insurance Premium (<u> 0 </u> months)	\$0	
Prepaid Interest (\$15.75 per day for 15 days @ 3.50%)	\$236	

F. Initial Escrow Payment at Closing				\$0
Taxes & Assessments	\$0	per month for	0 mo.	\$0
Homeowner’s Insurance	\$0	per month for	0 mo.	\$0
Mortgage Insurance	\$0	per month for	0 mo.	\$0
Flood Insurance	\$0	per month for	0 mo.	\$0
HOA/Condo/Co-op	\$0	per month for	0 mo.	\$0

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculation

Estimated Settlement Costs (A + B + C – Lender Credits)	\$6,080
D + E + F	\$959
Down Payment/Funds from Borrower	\$18,000
Deposit	– \$10,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0
Estimated Cash to Close	\$15,039

Adjustable Interest Rate (AIR) Table

Index + Margin	MTA + 3%
Initial Interest Rate	3.5%
Minimum/Maximum Interest Rate	3.25% / 6%

Limits on Interest Rate Changes

First Change	2%
Subsequent Changes	2%

Change Frequency

First Change	Beginning of 37th month
Subsequent Changes	Every 36th month after first change

Round 5 – Loan Estimate design 1, 3/3 ARM with no escrow, example A, page 3

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@balsambank.com
 NMLS ID 767698

CREDITOR Balsam Bank
 NMLS ID 989897

LOAN ID # 1330172608

Additional Information About This Loan

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$54,153	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$16,950	Principal you will have paid off.
Annual Percentage Rate (APR)	3.69%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	57.5%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.
Lender Cost of Funds (LCF)	1.04%	The rate the lender pays to borrow money to lend you.

Other Considerations	
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Servicing	<input type="checkbox"/> We intend to service your loan. You will make your payments to us. <input checked="" type="checkbox"/> We intend to transfer servicing of your loan.
Assumption	If you sell or transfer your house to another person, we <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input checked="" type="checkbox"/> will not allow this person to assume this loan on the original terms.
Appraisals	We will promptly give you a copy of any written property appraisals or valuations you pay for, even if the loan does not close.
Refinance	We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments in the future.

Verify Receipt	
You do not have to accept this loan because you received this disclosure, signed a loan application, or sign below.	
Applicant Signature	Date
Co-Applicant Signature	Date

Round 5 – Loan Estimate design 1, 5/1 ARM with escrow, example B, page 1

BEECH BANK

4321 Random Boulevard • Somecity, NM 54321

DATE ISSUED 10/17/2011 LOAN ID# 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **10/31/2011** at 3:00 p.m. MDT.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, NM 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5/1 Adjustable Rate
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this amount increase after closing?	
Loan Amount	\$162,000	NO	
Interest Rate	3.125% for 5 years	YES	<ul style="list-style-type: none"> • Adjusts every year starting in year 6 • Can go as high as 9% in year 10 • See AIR table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$693.98	YES	<ul style="list-style-type: none"> • Adjusts every year starting in year 6 • Can go as high as \$1,185 in year 10
		Does the loan have these features?	
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments				
Payment Calculation	Years 1-5	Year 6	Year 7	Years 8-30
Principal & Interest	\$693.98	\$802 min \$854 max	\$802 min \$938 max	\$802 min \$1,185 max
Mortgage Insurance	+ 82	+ 82	+ 82	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 199	+ 199	+ 199	+ 199
Estimated Total Monthly Payment	\$975	\$1,083–\$1,135	\$1,083–\$1,219	\$1,001–\$1,384
Escrow Information for Estimated Taxes & Insurance	\$199 a month	<input checked="" type="checkbox"/> Escrow. Your monthly payment includes your taxes and insurance. <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.		

Closing Costs	
Estimated Cash to Close	\$17,776 Includes \$8,522 in estimated settlement costs. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 5 – Loan Estimate design 1, 5/1 ARM with escrow, example B, page 2

PAGE 2 • LOAN ID # 1330172608

Calculating Settlement Costs

A. Origination Charges		\$2,560
.5 Points %		\$810
Administration Fee		\$750
Processing Fee		\$200
Underwriting Fee		\$800

B. Services You Cannot Shop For		\$835
Credit Report Fee		\$30
Tax Status Research Fee		\$55
Flood Determination Fee		\$35
Flood Monitoring Fee		\$40
Appraisal Fee		\$675

C. Services You Can Shop For		\$5,127
Pest Inspection Fee		\$200
Survey Fee		\$105
Settlement Agent Fee		\$626
Title – Lender’s Policy		\$650
Title – Owner’s Policy (optional)		\$1,109
Title – Search		\$1,437
Title – Examination		\$600
Title – Insurance Binder		\$200
Title – Commitment Letter		\$200

Calculation	
A + B + C	\$8,522
Lender Credits	– \$0
Estimated Settlement Costs	\$8,522

Calculating Cash to Close

D. Taxes and Other Government Fees		\$85
Transfer Taxes		\$0
Recording Fees		\$85
Other Taxes and Government Fees		\$0

E. Prepaids		\$771
Property Taxes (_0_ months)		\$0
Homeowner’s Insurance Premium (_6_ months)		\$560
Mortgage Insurance Premium (_0_ months)		\$0
Prepaid Interest (\$14.06 per day for 15 days @ 3.125%)		\$211

F. Initial Escrow Payment at Closing		\$398
Taxes & Assessments	\$105.30 per month for 2 mo.	\$211
Homeowner’s Insurance	\$93.33 per month for 2 mo.	\$187
Mortgage Insurance	\$0 per month for 0 mo.	\$0
Flood Insurance	\$0 per month for 0 mo.	\$0
HOA/Condo/Co-op	\$0 per month for 0 mo.	\$0

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculation	
Estimated Settlement Costs (A + B + C – Lender Credits)	\$8,522
D + E + F	\$1,254
Down Payment/Funds from Borrower	\$18,000
Deposit	– \$10,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0
Estimated Cash to Close	\$17,776

Adjustable Interest Rate (AIR) Table

Index + Margin	LIBOR + 4%
Initial Interest Rate	3.125%
Minimum/Maximum Interest Rate	4.5% / 9%
Limits on Interest Rate Changes	
First Change	2%
Subsequent Changes	1%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 12th month after first change

Round 5 – Loan Estimate design 1, 5/1 ARM with escrow, example B, page 3

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@beechbank.com
 NMLS ID 767698

CREDITOR Beech Bank
 NMLS ID 989897

LOAN ID # 1330172608

Additional Information About This Loan

Comparisons

Use these measures to compare this loan with other loans.

In 5 Years	\$55,080	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$17,646	Principal you will have paid off.
Annual Percentage Rate (APR)	4.69%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	78.1%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.
Lender Cost of Funds (LCF)	0.89%	The rate the lender pays to borrow money to lend you.

Other Considerations

Late Payment If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Servicing We intend to service your loan. You will make your payments to us.
 We intend to transfer servicing of your loan.

Assumption If you sell or transfer your house to another person, we
 will allow, under certain conditions, this person to assume this loan on the original terms.
 will not allow this person to assume this loan on the original terms.

Appraisals We will promptly give you a copy of any written property appraisals or valuations you pay for, even if the loan does not close.

Refinance We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments in the future.

Verify Receipt

You do not have to accept this loan because you received this disclosure, signed a loan application, or sign below.

 Applicant Signature Date

 Co-Applicant Signature Date

Round 5 – Loan Estimate design 1, 30 year fixed with escrow, example C, page 1

FICUS BANK

4321 Random Boulevard • Somecity, NM 54321

DATE ISSUED 10/17/2011 LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **10/31/2011** at 3:00 p.m. MDT.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, NM 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$761.79	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments			
Payment Calculation	Years 1-7		Years 8-30
Principal & Interest	\$761.79		\$761.79
Mortgage Insurance	+	82	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+	206	+ 206
Estimated Total Monthly Payment	\$1,050		\$968
Escrow Information for Estimated Taxes & Insurance	\$206 a month	<input checked="" type="checkbox"/> Escrow. Your monthly payment includes your taxes and insurance. <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Closing Costs	
Estimated Cash to Close	\$16,054 Includes \$6,689 in estimated settlement costs. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 5 – Loan Estimate design 1, 30 year fixed with escrow, example C, page 2

PAGE 2 • LOAN ID # 1330172608

Calculating Settlement Costs

A. Origination Charges		\$1,802
.25 Points %	\$405	
Application Fee	\$100	
Processing Fee	\$200	
Document Preparation Fee	\$167	
Underwriting Fee	\$400	
Wire Transfer Fee	\$30	
Verification Fee	\$500	

B. Services You Cannot Shop For		\$672
Flood Determination Fee	\$20	
Tax Status Research Fee	\$110	
Flood Monitoring Fee	\$32	
Tax Monitoring Fee	\$75	
Appraisal Fee	\$405	
Credit Report Fee	\$30	

C. Services You Can Shop For		\$4,215
Pest Inspection Fee	\$135	
Survey Fee	\$65	
Title – Insurance Binder	\$700	
Title – Search	\$1,261	
Title – Lender's Policy	\$535	
Title – Owner's Policy (optional)	\$1,017	
Settlement Agent Fee	\$502	

Calculation	
A + B + C	\$6,689
Lender Credits	– \$0
Estimated Settlement Costs	\$6,689

Calculating Cash to Close

D. Taxes and Other Government Fees		\$85
Transfer Taxes	\$0	
Recording Fees	\$85	
Other Taxes and Government Fees	\$0	

E. Prepaids		\$867
Property Taxes (_0_ months)	\$0	
Homeowner's Insurance Premium (_6_ months)	\$605	
Mortgage Insurance Premium (_0_ months)	\$0	
Prepaid Interest (\$17.44 per day for 15 days @ 3.875%)	\$262	

F. Initial Escrow Payment at Closing			\$413
Taxes & Assessments	\$105.30 per month for 2 mo.	\$211	
Homeowner's Insurance	\$100.83 per month for 2 mo.	\$202	
Mortgage Insurance	\$0 per month for 0 mo.	\$0	
Flood Insurance	\$0 per month for 0 mo.	\$0	
HOA/Condo/Co-op	\$0 per month for 0 mo.	\$0	

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculation	
Estimated Settlement Costs (A + B + C – Lender Credits)	\$6,689
D + E + F	\$1,365
Down Payment/Funds from Borrower	\$18,000
Deposit	– \$10,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0
Estimated Cash to Close	\$16,054

Round 5 – Loan Estimate design 1, 30 year fixed with escrow, example C, page 3

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@ficusbank.com
 NMLS ID 676698

CREDITOR Ficus Bank
 NMLS ID 898897

LOAN ID # 1330172608

Additional Information About This Loan

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$57,316	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$15,773	Principal you will have paid off.
Annual Percentage Rate (APR)	4.31%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	69.3%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.
Lender Cost of Funds (LCF)	0.86%	The rate the lender pays to borrow money to lend you.

Other Considerations	
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Servicing	<input type="checkbox"/> We intend to service your loan. You will make your payments to us. <input checked="" type="checkbox"/> We intend to transfer servicing of your loan.
Assumption	If you sell or transfer your house to another person, we <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input checked="" type="checkbox"/> will not allow this person to assume this loan on the original terms.
Appraisals	We will promptly give you a copy of any written property appraisals or valuations you pay for, even if the loan does not close.
Refinance	We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments in the future.

Verify Receipt	
You do not have to accept this loan because you received this disclosure, signed a loan application, or sign below.	
Applicant Signature	Date
Co-Applicant Signature	Date

EVOLUTION OF THE INTEGRATED TILA/RESPA DISCLOSURES

Round 5 – Loan Estimate design 1, 5 year interest only with no escrow, example D, page 1

FIR BANK

4321 Random Boulevard • Somecity, NM 54321

DATE ISSUED 10/17/2011 LOAN ID# 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **10/31/2011** at 3:00 p.m. MDT.

Loan Estimate

APPLICANTS James White and Jane Johnson
PROPERTY 456 Avenue A, Anytown, NM 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, Fixed Rate
LOAN TYPE Conventional FHA VA _____

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	4%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$540.00	YES <ul style="list-style-type: none"> Increases to \$855 in year 6 Includes only interest until year 6 See AP table on page 2 for details
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments			
Payment Calculation	Years 1-5	Years 6-11	Years 12-30
Principal & Interest	\$540.00	\$855.10	\$855.10
Mortgage Insurance	+ 82	+ 82	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	\$622	\$937	\$855.10
Escrow Information for Estimated Taxes & Insurance	\$208 a month	<input type="checkbox"/> Escrow. Your monthly payment includes your taxes and insurance. <input checked="" type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Closing Costs	
Estimated Cash to Close	\$14,809 Includes \$5,839 in estimated settlement costs. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 5 – Loan Estimate design 1, 5 year interest only with no escrow, example D, page 2

Calculating Settlement Costs

A. Origination Charges \$1,613

.625 Points %	\$1,013
Processing Fee	\$300
Underwriting Fee	\$300

B. Services You Cannot Shop For \$582

Credit Report Fee	\$7
Appraisal Fee	\$500
Tax Status Research Fee	\$25
Flood Determination Fee	\$50

C. Services You Can Shop For \$3,644

Survey Fee	\$70
Pest Inspection Fee	\$130
Settlement Agent Fee	\$410
Title – Search	\$999
Title – Examination	\$515
Title – Lender’s Policy	\$520
Title – Owner’s Policy (optional)	\$1,000

Calculation

A + B + C	\$5,839
Lender Credits	– \$0
Estimated Settlement Costs	\$5,839

Adjustable Payment (AP) Table

Negative Amortization

Loan Amount Increase Limit	N/A
Scheduled Loan Amount Increase	N/A

Limits on Payment Changes

Initial Payment	\$540.00 a month
Subsequent Changes	Increases to \$855.10

Change Frequency

First Change	61st payment
Subsequent Changes	No subsequent changes

Calculating Cash to Close

D. Taxes and Other Government Fees \$85

Transfer Taxes	\$0
Recording Fees	\$85
Other Taxes and Government Fees	\$0

E. Prepaids \$885

Property Taxes (_0_ months)	\$0
Homeowner’s Insurance Premium (_6_ months)	\$615
Mortgage Insurance Premium (_0_ months)	\$0
Prepaid Interest (\$18.00 per day for 15 days @ 4.0%)	\$270

F. Initial Escrow Payment at Closing \$0

Taxes & Assessments	\$0	per month for 0 mo.	\$0
Homeowner’s Insurance	\$0	per month for 0 mo.	\$0
Mortgage Insurance	\$0	per month for 0 mo.	\$0
Flood Insurance	\$0	per month for 0 mo.	\$0
HOA/Condo/Co-op	\$0	per month for 0 mo.	\$0

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculation

Estimated Settlement Costs (A + B + C – Lender Credits)	\$5,839
D + E + F	\$970
Down Payment/Funds from Borrower	\$18,000
Deposit	– \$10,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0

Estimated Cash to Close \$14,809

Round 5 – Loan Estimate design 1, 5 year interest only with no escrow, example D, page 3

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@firbank.com
 NMLS ID 676698

CREDITOR Fir Bank
 NMLS ID 898897

LOAN ID # 1330172608

Additional Information About This Loan

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$43,159	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$0	Principal you will have paid off.
Annual Percentage Rate (APR)	4.51%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	78.4%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.
Lender Cost of Funds (LCF)	1.2%	The rate the lender pays to borrow money to lend you.

Other Considerations

Late Payment If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Servicing We intend to service your loan. You will make your payments to us.
 We intend to transfer servicing of your loan.

Assumption If you sell or transfer your house to another person, we
 will allow, under certain conditions, this person to assume this loan on the original terms.
 will not allow this person to assume this loan on the original terms.

Appraisals We will promptly give you a copy of any written property appraisals or valuations you pay for, even if the loan does not close.

Refinance We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments in the future.

Verify Receipt

You do not have to accept this loan because you received this disclosure, signed a loan application, or sign below.

 Applicant Signature Date

 Co-Applicant Signature Date

Projected Payments	
Payment Calculation	
<input type="checkbox"/>	Interest & Interest
<input type="checkbox"/>	Mortgage Insurance
<input checked="" type="checkbox"/>	Estimated Escrow Amount Can Increase Over Time
Estimated Total Monthly Payment	
<input checked="" type="checkbox"/>	Estimated Taxes, Insur & Assessments Amount Can Increase Over Time See Details on Page 4

Appendix

Settlement Disclosures for Round 6 – Des Moines, IA

Round 6 – Settlement Disclosure design 1, 5/1 ARM with escrow, example A, page 1

Settlement Disclosure Form

This form is a statement of final loan terms and actual settlement costs.

SETTLEMENT INFORMATION

Date 11/9/2011
Agent Martha Jones
Location ABC Settlement
 54321 Random Blvd, Ste 405
 Somecity, IA 54321
Property 1234 Anywhere Street
 Somecity, IA 54321

TRANSACTION INFORMATION

Borrower James White and Jane Johnson
 456 Avenue Anywhere
 Anytown, IA 12345
Seller John Wilson
 123 Somewhere Dr.
 Anytown, IA 12345

LOAN INFORMATION

Lender Balsam Bank
 9876 Random Blvd, Ste 504
 Somecity, IA 54321
Loan Type Conventional FHA
 VA _____
Loan Term 30 years
Purpose Purchase
Product 5/1 Adjustable Rate
File No. 0000000000
Loan No. 0000000000
MIC No. 0000000000

Loan Terms

		Can this amount increase after closing?
Loan Amount	\$121,000	NO
Interest Rate	2.875% for 5 years	YES <ul style="list-style-type: none"> Adjusts every year starting in year 6 Can go as high as 8% in year 9 See AIR table on page 4
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$502.03	YES <ul style="list-style-type: none"> Adjusts every year starting in year 6 Can go as high as \$822 in year 9
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-5	Year 6	Year 7	Years 8-30
Principal & Interest	\$502.03	\$597 min \$683 max	\$597 min \$748 max	\$597 min \$822 max
Mortgage Insurance	+ 61.51	+ 62	+ —	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 430.30	+ 430	+ 430	+ 430
Estimated Total Monthly Payment	\$993.84	\$1,089–\$1,175	\$1,027–\$1,178	\$1,027–\$1,252
Escrow Information for Taxes & Insurance	\$430.30 a month	<input checked="" type="checkbox"/> Escrow. Your monthly payment includes your taxes and insurance. <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.		

Closing Costs

Cash to Close	\$17,371.44	\$4,842.00 in Settlement Fees. See Closing Cost Summary on page 5.
----------------------	-------------	-----------------------------------------------------------------------

Round 6 – Settlement Disclosure design 1, 5/1 ARM with escrow, example A, page 2

LOAN NO.	1330172608	LOAN OFFICER	Joe Smith	EMAIL	joesmith@balsambank.com
CREDITOR	Balsam Bank	NMLS ID	767698	PHONE	555-123-4444
NMLS ID	989897				

Summary of Borrower's Transaction		
100 Total Amount Due from Borrower		
101	Contract sales price	\$135,000.00
102	Personal property	
103	Total Closing Costs charged to borrower (line 1400)	\$8,410.28
104		
105		
Adjustment for items paid by seller in advance		
106	City/town taxes to	
107	County taxes to	
108	Assessments to	
109		
110		
111		
112		
120	Total Amount Due from Borrower	\$143,410.28

200 Amount Paid by or on Behalf of Borrower		
201	Deposit or earnest money	\$4,000.00
202	Principal amount of new loan(s)	\$121,000.00
203	Existing loan(s) assumed or taken subject to	
204		
205		
206		
207		
208		
209		
Adjustments for items unpaid by seller		
210	City/town taxes to	
211	County taxes 7/1/11 to 11/9/11	\$1,038.84
212	Assessments to	
213		
214		
215		
216		
217		
218		
219		
220	Total Paid by/for Borrower	\$126,038.84

300 Cash at Settlement from/to Borrower		
301	Total amount due from borrower (line 120)	\$143,410.28
302	Total paid by/for borrower (line 220)	(\$126,038.84)
303	Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$17,371.44

Summary of Seller's Transaction		
400 Total Amount Due to Seller		
401	Contract sales price	\$135,000.00
402	Personal property	
403		
404		
405		
Adjustment for items paid by seller in advance		
406	City/town taxes to	
407	County taxes to	
408	Assessments to	
409		
410		
411		
412		
420	Total Amount Due to Seller	\$135,000.00

500 Reductions in Amount Due to Seller		
501	Excess deposit (see instructions)	
502	Total Closing Costs to seller (line 1400)	\$9,241.00
503	Existing loan(s) assumed or taken subject to	
504	Payoff of first mortgage loan	
505	Payoff of second mortgage loan	
506		
507		
508		
509		
Adjustments for items unpaid by seller		
510	City/town taxes to	
511	County taxes 7/1/11 to 11/9/11	\$1,038.84
512	Assessments to	
513		
514		
515		
516		
517		
518		
519		
520	Total Reduction in Amount Due Seller	\$10,279.84

600 Cash at Settlement to/from Seller		
601	Total amount due to seller (line 420)	\$135,000.00
602	Total reduction in amount due seller (line 520)	(\$10,279.84)
603	Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller	\$124,720.16

Round 6 – Settlement Disclosure design 1, 5/1 ARM with escrow, example A, page 3

Closing Costs									
700 Total Real Estate Broker Fees		\$8,750.00		Paid at Settlement		Paid Outside of Closing			
Division of commission (line 700) as follows:									
701	\$4,375.00	to	Reliable Realty Co.	From Borrower's Funds	From Seller's Funds	Amount	Paid by	Paid to	When
702	\$4,375.00	to	Realty Pros LLC						
703	Commission paid at settlement				\$8,750.00				
704									
800 Origination Charges									
801	1%	Points		\$1,210.00					
802	Underwriting Fee			\$800.00					
803	Processing Fee			\$200.00					
804	Verification Fee			\$300.00					
805	Broker Fee	to	Friendly Mortgage Broker Inc.			\$2,420.00	Lender	Broker	Closing
900 Services in Connection with Your Loan									
901	Credit Report Fee	to	Creditco			\$12.00	Borrower	Provider	Before
902	Tax Status Research Fee	to	Collateral Research Inc.	\$55.00					
903	Flood Determination Fee	to	Collateral Research Inc.	\$25.00					
904	Tax Monitoring Fee	to	Monitoring Services Inc.	\$35.00					
905	Flood Monitoring Fee	to	Monitoring Services Inc.	\$40.00					
906	Appraisal Fee	to	Local Appraisal Co.			\$675.00	Borrower	Affiliate	Before
907	Document Preparation Fee	to	Collateral Research Inc.	\$125.00					
908	Survey Fee	to	Surveyors Inc.	\$105.00					
909	Pest Inspection Fee	to	Home Pest Co.	\$200.00					
910	Borrower's Attorney	to	Tyler & Brady LLP	\$400.00					
1000 Title Charges									
1001	Settlement or closing fee	to	ABC Settlement Co.	\$350.00					
1002	Abstract or title search	to	Regional Title Co.		\$275.00				
1003	Title examination	to	Regional Title Co.	\$200.00					
1004	Title insurance binder	to							
1005	Document preparation	to							
1006	Notary fees	to							
1007	Attorney's fees	to							
1008	Title insurance	to	Treasurer State of Iowa	\$110.00					
1009	Lender's coverage			\$121,000					
1010	Owner's coverage			\$135,000					
1011									
1012									
1100 Taxes and Other Government Fees									
1101	Recording Fees:	Deed \$27.00	Mortgage \$92.00	\$119.00					
1102	City/county tax/stamps:	Deed \$	Mortgage \$						
1103	State tax/stamps:	Deed \$	Mortgage \$						
1104	Transfer Taxes				\$216.00				
1105									
1200 Prepays									
1201	Property Taxes (0 months)								
1202	Homeowner's Insurance Premium (12 months)	to	XYZ Ins. Co.	\$596.00					
1203	Mortgage Insurance Premium (0 months)	to							
1204	Flood Insurance Premium (12 months)	to	Natl. Flood Co.	\$1,695.00					
1205	Daily Interest Charges from	11/9 to 11/30	@ \$9.66 per day	\$202.86					
1300 Initial Escrow Payment									
1301	Homeowner's Insurance	\$49.67	per month for 3 mo.	\$149.01					
1302	Mortgage Insurance	\$	per month for 0 mo.						
1303	Property Taxes	\$239.38	per month for 7 mo.	\$1,675.66					
1304	Flood Insurance	\$141.25	per month for 3 mo.	\$423.75					
1305									
1306									
1307									
1308	Aggregate Adjustment			(\$606.00)					
1400 Total Closing Costs (enter on lines 103 and 502)				\$8,410.28	\$9,241.00	\$3,107.00			

Round 6 – Settlement Disclosure design 1, 5/1 ARM with escrow, example A, page 5

Loan Disclosures

Assumption

If you sell or transfer your home to another person: We will will not allow, under certain conditions, this person to assume this loan on the original terms.

Demand Feature

Your loan does does not have a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.

Escrow Account Information

Your loan will have an escrow account to pay your home-related costs, such as property taxes and homeowner's insurance. We estimate that these costs will total \$5,163.60 for the first year of your loan. Without an escrow account, you would pay these potentially large costs directly in semi-annual or annual payments.

For now, at closing, you will make an initial deposit of \$1,642.42 into your escrow account. After that, your regular mortgage payments will include an additional \$430.30 that will go into your escrow account. We will take money from your account to pay these home-related costs as needed.

In the future, the amount of this escrow payment may change. In addition, you may be permitted to cancel your escrow account, but if you do so, you will be responsible for directly paying these home-related costs unless you create a new escrow account.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Partial Payment Policy

We will will not accept partial payments. We will apply partial payments:

Security Interest

You are granting us a security interest in 1234 Anywhere St., Somecity, IA 54321. You may lose your home if you do not make your payments on time or satisfy other obligations for this loan.

Confirm Receipt

By signing below, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form or applied for this loan.

Applicant Signature/Date

Co-Applicant Signature/Date

SETTLEMENT DISCLOSURE FORM

PAGE 5 OF 5

Loan Calculations

Closing Costs Summary

The total amount of Settlement Fees is \$4,842.00. (See total of sections 800, 900, and 1000 on page 3.) Of this amount, \$0 will be financed and \$4,842.00 will be paid in cash. The total of other costs in connection with the loan are \$2,042.02.

Lender Cost of Funds (LCF)

The cost of funds used to make this loan is 1.04%. This is not a cost to you.

Originator Fees Summary

The total amount of fees paid to the Originator is \$2,420.00. Of this amount, \$0 will be paid by the Borrower(s) and \$2,420.00 will be paid by the Lender.

Total Interest Percentage (TIP)

This rate of 74.3% is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Total Payments

If the market rate did not change and you made all of your payments as scheduled, you would make 360 payments totaling \$370,204.01 (including estimated escrow). Of this amount, \$97,118.87 would go to interest and settlement charges. This amount and your amount financed of \$118,177.14 are used to calculate your Annual Percentage Rate (APR) of 4.44%.

Other Disclosures

Appraisal Copy

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact:

Joe Smith

Balsam Bank

555-123-4444

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
• other ways you can default on the loan,
• situations in which we can require early repayment of the loan, and
• the rules for making payments before they are due.

Liability after Foreclosure

In the state where your home is located, if your lender forecloses on your home and the foreclosure does not cover the amount of principal remaining on this loan:

You [checked] will [] will not be personally liable for the unpaid principal. If you refinance or take on any additional debt on your home, you may lose this protection (if any) and be personally liable for debt remaining after the foreclosure. You may want to consult an attorney for more information.

Refinance

We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments.

Tax Deductions

If you borrow more than your home is worth, the interest on the loan amount above the home's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Questions

If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Round 6 – Settlement Disclosure design 1, 30 year fixed with no escrow, example B, page 1

Settlement Disclosure Form

This form is a statement of final loan terms and actual settlement costs.

SETTLEMENT INFORMATION

Date 11/9/2011
Agent Martha Jones
Location ABC Settlement
 54321 Random Blvd, Ste 405
 Somecity, IA 54321
Property 1234 Anywhere Street
 Somecity, IA 54321

TRANSACTION INFORMATION

Borrower James White and Jane Johnson
 456 Avenue Anywhere
 Anytown, IA 12345
Seller John Wilson
 123 Somewhere Dr.
 Anytown, IA 12345

LOAN INFORMATION

Lender Ficus Bank
 9876 Random Blvd, Ste 504
 Somecity, IA 54321
Loan Type Conventional FHA
 VA _____
Loan Term 30 years
Purpose Purchase
Product Fixed Rate
File No. 0000000000
Loan No. 0000000000
MIC No. 0000000000

Loan Terms

		Can this amount increase after closing?
Loan Amount	\$121,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$568.99	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$568.99	\$568.99
Mortgage Insurance	+ 61.51	+ —
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 0	+ 0
Estimated Total Monthly Payment	\$630.50	\$568.99

Escrow Information for Taxes & Insurance

\$430.30 a month Escrow. Your monthly payment includes your taxes and insurance.
 No escrow. You must pay your taxes and insurance separately from your loan payments.

Closing Costs

Cash to Close	\$16,197.02	\$4,842.00 in Settlement Fees. See Closing Cost Summary on page 5.
----------------------	-------------	-----------------------------------------------------------------------

Round 6 – Settlement Disclosure design 1, 30 year fixed with no escrow, example B, page 3

Closing Costs									
700 Total Real Estate Broker Fees		\$8,750.00		Paid at Settlement		Paid Outside of Closing			
Division of commission (line 700) as follows:				From Borrower's Funds	From Seller's Funds	Amount	Paid by	Paid to	When
701	\$4,375.00	to	Reliable Realty Co.						
702	\$4,375.00	to	Realty Pros LLC						
703	Commission paid at settlement				\$8,750.00				
704									
800 Origination Charges									
801	1%	Points		\$1,210.00					
802	Underwriting Fee			\$800.00					
803	Processing Fee			\$200.00					
804	Verification Fee			\$300.00					
805	Broker Fee	to	Friendly Mortgage Broker Inc.			\$2,420.00	Lender	Broker	Closing
900 Services in Connection with Your Loan									
901	Credit Report Fee	to	Creditco			\$12.00	Borrower	Provider	Before
902	Tax Status Research Fee	to	Collateral Research Inc.	\$55.00					
903	Flood Determination Fee	to	Collateral Research Inc.	\$25.00					
904	Tax Monitoring Fee	to	Monitoring Services Inc.	\$35.00					
905	Flood Monitoring Fee	to	Monitoring Services Inc.	\$40.00					
906	Appraisal Fee	to	Local Appraisal Co.			\$675.00	Borrower	Affiliate	Before
907	Document Preparation Fee	to	Collateral Research Inc.	\$125.00					
908	Survey Fee	to	Surveyors Inc.	\$105.00					
909	Pest Inspection Fee	to	Home Pest Co.	\$200.00					
910	Borrower's Attorney	to	Tyler & Brady LLP	\$400.00					
1000 Title Charges									
1001	Settlement or closing fee	to	ABC Settlement Co.	\$350.00					
1002	Abstract or title search	to	Regional Title Co.		\$275.00				
1003	Title examination	to	Regional Title Co.	\$200.00					
1004	Title insurance binder	to							
1005	Document preparation	to							
1006	Notary fees	to							
1007	Attorney's fees	to							
1008	Title insurance	to	Treasurer State of Iowa	\$110.00					
1009	Lender's coverage		\$121,000						
1010	Owner's coverage		\$135,000						
1011									
1012									
1100 Taxes and Other Government Fees									
1101	Recording Fees:	Deed \$27.00	Mortgage \$92.00	\$119.00					
1102	City/county tax/stamps:	Deed \$	Mortgage \$						
1103	State tax/stamps:	Deed \$	Mortgage \$						
1104	Transfer Taxes				\$216.00				
1105									
1200 Prepays									
1201	Property Taxes - Borrower's Share	11/10/11 to 12/31/11		\$397.44					
1202	Homeowner's Insurance Premium (12 months)	to XYZ Ins. Co.		\$596.00					
1203	Mortgage Insurance Premium (0 months)	to							
1204	Flood Insurance Premium (12 months)	to Natl. Flood Co.		\$1,695.00					
1205	Daily Interest Charges from	11/9 to 11/30 @ \$13.02 per day		\$273.42					
1300 Initial Escrow Payment									
1301	Homeowner's Insurance	\$0	per month for 0 mo.						
1302	Mortgage Insurance	\$0	per month for 0 mo.						
1303	Property Taxes	\$0	per month for 0 mo.						
1304	Flood Insurance	\$0	per month for 0 mo.						
1305									
1306									
1307									
1308	Aggregate Adjustment								
1400 Total Closing Costs (enter on lines 103 and 502)				\$7,235.86	\$9,241.00	\$3,107.00			

Round 6 – Settlement Disclosure design 1, 30 year fixed with no escrow, example B, page 5

Loan Disclosures

Assumption

If you sell or transfer your home to another person: We will will not allow, under certain conditions, this person to assume this loan on the original terms.

Demand Feature

Your loan does does not have a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.

Escrow Account Information

Your loan will not have an escrow account. The fee for not having an escrow account is \$ 0 .

For now, in addition to your mortgage loan payment, you are personally responsible for directly paying your home-related costs, such as property taxes and homeowner's insurance. We estimate that these costs will total \$5,163.60 for the first year of your loan. You must pay these costs in potentially large semi-annual or annual payments.

In the future, if you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on your home. In addition, if you fail to pay any of your home-related costs, we may • add the amounts to your loan balance, • add an escrow account to your loan, or • require you to pay for insurance on your home that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Partial Payment Policy

We will will not accept partial payments. We will apply partial payments:

Security Interest

You are granting us a security interest in 1234 Anywhere St., Somecity, IA 54321. You may lose your home if you do not make your payments on time or satisfy other obligations for this loan.

Confirm Receipt

By signing below, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form or applied for this loan.

Applicant Signature/Date

Co-Applicant Signature/Date

Loan Calculations

Closing Costs Summary

The total amount of Settlement Fees is \$4,842.00. (See total of sections 800, 900, and 1000 on page 3.) Of this amount, \$0 will be financed and \$4,842.00 will be paid in cash. The total of other costs in connection with the loan are \$2,042.02.

Lender Cost of Funds (LCF)

The cost of funds used to make this loan is 1.04%. This is not a cost to you.

Originator Fees Summary

The total amount of fees paid to the Originator is \$2,420.00. Of this amount, \$0 will be paid by the Borrower(s) and \$2,420.00 will be paid by the Lender.

Total Interest Percentage (TIP)

This rate of 69.3% is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Total Payments

If the market rate did not change and you made all of your payments as scheduled, you would make 360 payments totaling \$209,634.18. Of this amount, \$91,527.60 would go to interest and settlement charges. This amount and your amount financed of \$118,106.58 are used to calculate your Annual Percentage Rate (APR) of 4.38%.

Other Disclosures

Appraisal Copy

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact:

Joe Smith

Ficus Bank

555-123-4444

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
• other ways you can default on the loan,
• situations in which we can require early repayment of the loan, and
• the rules for making payments before they are due.

Liability after Foreclosure

In the state where your home is located, if your lender forecloses on your home and the foreclosure does not cover the amount of principal remaining on this loan:

You will will not be personally liable for the unpaid principal. If you refinance or take on any additional debt on your home, you may lose this protection (if any) and be personally liable for debt remaining after the foreclosure. You may want to consult an attorney for more information.

Refinance

We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments.

Tax Deductions

If you borrow more than your home is worth, the interest on the loan amount above the home's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Questions

If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Round 6 – Settlement Disclosure design 2, 5/1 ARM with escrow, example A, page 1

Settlement Disclosure Form

This form is a statement of final loan terms and actual settlement costs.

SETTLEMENT INFORMATION

Date 11/9/2011
Agent Martha Jones
Location ABC Settlement
 54321 Random Blvd, Ste 405
 Somecity, IA 54321
Property 1234 Anywhere Street
 Somecity, IA 54321

TRANSACTION INFORMATION

Borrower James White and Jane Johnson
 456 Avenue Anywhere
 Anytown, IA 12345
Seller John Wilson
 123 Somewhere Dr.
 Anytown, IA 12345

LOAN INFORMATION

Lender Laurel Bank
 9876 Random Blvd, Ste 504
 Somecity, IA 54321
Loan Type Conventional FHA
 VA _____
Loan Term 30 years
Purpose Purchase
Product 5/1 Adjustable Rate
File No. 000000000
Loan No. 000000000
MIC No. 000000000

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$121,000	NO
Interest Rate	2.875% for 5 years	YES <ul style="list-style-type: none"> • Adjusts every year starting in year 6 • Can go as high as 8% in year 9 • See AIR table on page 4
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$502.03	YES <ul style="list-style-type: none"> • Adjusts every year starting in year 6 • Can go as high as \$822 in year 9
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments	Does the loan have these features?			
Payment Calculation	Years 1-5	Year 6	Year 7	Years 8-30
Principal & Interest	\$502.03	\$597 min \$683 max	\$597 min \$748 max	\$597 min \$822 max
Mortgage Insurance	+ 61.51	+ 62	+ —	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 430.30	+ 430	+ 430	+ 430
Estimated Total Monthly Payment	\$993.84	\$1,089–\$1,175	\$1,027–\$1,178	\$1,027–\$1,252
Escrow Information for Taxes & Insurance	\$430.30 a month	<input checked="" type="checkbox"/> Escrow. Your monthly payment includes your taxes and insurance. <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.		

Closing Costs		
Cash to Close	\$17,371.44	\$4,842.00 in Settlement Fees. See Closing Cost Summary on page 5.

Round 6 – Settlement Disclosure design 2, 5/1 ARM with escrow, example A, page 2

LOAN NO. 1330172608
 CREDITOR Laurel Bank
 NMLS ID 989897

LOAN OFFICER Joe Smith
 NMLS ID 767698

EMAIL joesmith@laurelbank.com
 PHONE 555-123-4444

Summary of Borrower's Transaction

100 Total Amount Due from Borrower		
101	Contract sales price	\$135,000.00
102	Personal property	
103	Total Closing Costs charged to borrower (line 1400)	\$8,410.28
104		
105		
Adjustment for items paid by seller in advance		
106	City/town taxes to	
107	County taxes to	
108	Assessments to	
109		
110		
111		
112		
120	Total Amount Due from Borrower	\$143,410.28

200 Amount Paid by or on Behalf of Borrower		
201	Deposit or earnest money	\$4,000.00
202	Principal amount of new loan(s)	\$121,000.00
203	Existing loan(s) assumed or taken subject to	
204		
205		
206		
207		
208		
209		
Adjustments for items unpaid by seller		
210	City/town taxes to	
211	County taxes 7/1/11 to 11/9/11	\$1,038.84
212	Assessments to	
213		
214		
215		
216		
217		
218		
219		
220	Total Paid by/for Borrower	\$126,038.84

300 Cash at Settlement from/to Borrower		
301	Total amount due from borrower (line 120)	\$143,410.28
302	Total paid by/for borrower (line 220)	(\$126,038.84)
303	Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$17,371.44

Summary of Seller's Transaction

400 Total Amount Due to Seller		
401	Contract sales price	\$135,000.00
402	Personal property	
403		
404		
405		
Adjustment for items paid by seller in advance		
406	City/town taxes to	
407	County taxes to	
408	Assessments to	
409		
410		
411		
412		
420	Total Amount Due to Seller	\$135,000.00

500 Reductions in Amount Due to Seller		
501	Excess deposit (see instructions)	
502	Total Closing Costs to seller (line 1400)	\$9,241.00
503	Existing loan(s) assumed or taken subject to	
504	Payoff of first mortgage loan	
505	Payoff of second mortgage loan	
506		
507		
508		
509		
Adjustments for items unpaid by seller		
510	City/town taxes to	
511	County taxes 7/1/11 to 11/9/11	\$1,038.84
512	Assessments to	
513		
514		
515		
516		
517		
518		
519		
520	Total Reduction in Amount Due Seller	\$10,279.84

600 Cash at Settlement to/from Seller		
601	Total amount due to seller (line 420)	\$135,000.00
602	Total reduction in amount due seller (line 520)	(\$10,279.84)
603	Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller	\$124,720.16

Round 6 – Settlement Disclosure design 2, 5/1 ARM with escrow, example A, page 3

Closing Costs

			Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement	Paid Outside of Closing See details on page 4
700	Total Real Estate Broker Fees	\$8,750.00			
Division of commission (line 700) as follows:					
701	\$4,375.00	to Reliable Realty Co.			
702	\$4,375.00	to Realty Pros LLC			
703	Commission paid at settlement			\$8,750.00	
704					
800	Origination Charges				
801	1%	Points	\$1,210.00		
802	Underwriting Fee		\$800.00		
803	Processing Fee		\$200.00		
804	Verification Fee		\$300.00		
805	Broker Fee	to Friendly Mortgage Broker Inc.			\$2,420.00
900	Services in Connection with Your Loan				
901	Credit Report Fee	to Creditco			\$12.00
902	Tax Status Research Fee	to Collateral Research Inc.	\$55.00		
903	Flood Determination Fee	to Collateral Research Inc.	\$25.00		
904	Tax Monitoring Fee	to Monitoring Services Inc.	\$35.00		
905	Flood Monitoring Fee	to Monitoring Services Inc.	\$40.00		
906	Appraisal Fee	to Local Appraisal Co.			\$675.00
907	Document Preparation Fee	to Collateral Research Inc.	\$125.00		
908	Survey Fee	to Surveyors Inc.	\$105.00		
909	Pest Inspection Fee	to Home Pest Co.	\$200.00		
910	Borrower's Attorney	to Tyler & Brady LLP	\$400.00		
1000	Title Charges				
1001	Settlement or closing fee	to ABC Settlement Co.	\$350.00		
1002	Abstract or title search	to Regional Title Co.		\$275.00	
1003	Title examination	to Regional Title Co.	\$200.00		
1004	Title insurance binder	to			
1005	Document preparation	to			
1006	Notary fees	to			
1007	Attorney's fees	to			
1008	Title insurance	to Treasurer State of Iowa	\$110.00		
1009	Lender's coverage		\$121,000		
1010	Owner's coverage		\$135,000		
1011					
1012					
1100	Taxes and Other Government Fees				
1101	Recording Fees:	Deed \$27.00 Mortgage \$92.00	\$119.00		
1102	City/county tax/stamps:	Deed \$ Mortgage \$			
1103	State tax/stamps:	Deed \$ Mortgage \$			
1104	Transfer Taxes			\$216.00	
1105					
1200	Prepays				
1201	Property Taxes (0 months)				
1202	Homeowner's Insurance Premium (12 months)	to XYZ Ins. Co.	\$596.00		
1203	Mortgage Insurance Premium (0 months)	to			
1204	Flood Insurance Premium (12 months)	to Natl. Flood Co.	\$1,695.00		
1205	Daily Interest Charges from 11/9 to 11/30 @ \$9.66 per day		\$202.86		
1300	Initial Escrow Payment				
1301	Homeowner's Insurance	\$49.67 per month for 3 mo.	\$149.01		
1302	Mortgage Insurance	\$ per month for 0 mo.			
1303	Property Taxes	\$239.38 per month for 7 mo.	\$1,675.66		
1304	Flood Insurance	\$141.25 per month for 3 mo.	\$423.75		
1305					
1306					
1307					
1308	Aggregate Adjustment		(\$606.00)		
1400	Total Closing Costs (enter on lines 103 and 502)		\$8,410.28	\$9,241.00	\$3,107.00

Round 6 – Settlement Disclosure design 2, 5/1 ARM with escrow, example A, page 5

Loan Disclosures

Assumption

If you sell or transfer your home to another person:

- We will allow, under certain conditions, this person to assume this loan on the original terms.
- We will not allow assumption of this loan.

Demand Feature

- Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- Your loan does not have a demand feature.

Escrow Account Information

For now, your loan

- will have an escrow account to pay your home-related costs, such as property taxes and homeowner’s insurance. We estimate that these costs will total **\$5,163.60** for the first year of your loan. Without an escrow account, you would pay these potentially large costs directly in semi-annual or annual payments. At closing, you will make an initial deposit of **\$1,642.42** into your escrow account. After that, your regular mortgage payments will include an additional **\$430.30** that will go into your escrow account. We will take money from your account to pay these home-related costs as needed.
- will not have an escrow account. The fee for not having an escrow account is \$_____. In addition to your mortgage loan payment, you are personally responsible for directly paying your home-related costs, such as property taxes and homeowner’s insurance. We estimate that these costs will total \$_____ for the first year of your loan. You must pay these costs in potentially large semi-annual or annual payments.

In the future,

If you have an escrow account, or if one is added later, the amount of your escrow payment may change. In addition, you may be permitted to cancel your escrow account, but if you do so, you will be responsible for directly paying these home-related costs unless you create a new escrow account.

If you do not have an escrow account and fail to pay your property taxes, your state or local government may (1) impose fines and penalties

or (2) place a tax lien on your home. In addition, if you fail to pay any of your home-related costs, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for insurance on your home that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization

Under your loan terms, you

- are scheduled to make monthly payments that are less than the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- have the option of making monthly payments that are less than the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- do not have a negative amortization feature.

Partial Payment Policy

We will accept partial payments. We will apply partial payments:

We will not accept partial payments.

Security Interest

You are granting us a security interest in 1234 Anywhere St., Somecity, IA 54321. You may lose your home if you do not make your payments or satisfy other obligations for this loan.

Loan Calculations

Calculations	
Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$370,204.01
Finance Charge. The dollar amount the credit will cost you.	\$97,118.87
Amount Financed. The amount of credit provided to you or on your behalf.	\$118,177.44
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.44%
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	74.3%
Lender Cost of Funds (LCF). The cost of the funds used to make this loan. This is not a cost to you.	1.04%

Closing Costs Summary	
Total Settlement Fees <i>(See total of Sections 800, 900, and 1000 on page 3.)</i>	\$4,842.00
Settlement Fees Financed in the Loan Amount	\$0
Settlement Fees Paid in Cash	\$4,842.00
Total of Other Costs in Connection with the Loan	\$3,216.44

Originator Fees Summary	
Total Fees Paid to Originator	\$2,420.00
Fees Paid by Borrower(s) to Originator	\$0
Fees Paid by Lender to Originator	\$2,420.00

Round 6 – Settlement Disclosure design 2, 5/1 ARM with escrow, example A, page 6

Other Disclosures

Appraisal Copy

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact:

Joe Smith

Laurel Bank

555-123-4444

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which we can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

In the state where your home is located, if your lender forecloses on your home and the foreclosure does not cover the amount of principal remaining on this loan:

- You will not be personally liable for the unpaid principal. If you refinance or take on any additional debt on your home, you may lose this protection (if any) and be personally liable for debt remaining after the foreclosure. You may want to consult an attorney for more information.
- You will be personally liable for the unpaid principal.

Refinance

We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments.

Tax Deductions

If you borrow more than your home is worth, the interest on the loan amount above the home's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Questions

If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Confirm Receipt

By signing below, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form or applied for this loan.

Applicant Signature/Date

Co-Applicant Signature/Date

Round 6 – Settlement Disclosure design 2, 30 year fixed with no escrow, example B, page 1

Settlement Disclosure Form

This form is a statement of final loan terms and actual settlement costs.

SETTLEMENT INFORMATION

Date 11/9/2011
Agent Martha Jones
Location ABC Settlement
 54321 Random Blvd, Ste 405
 Somecity, IA 54321
Property 1234 Anywhere Street
 Somecity, IA 54321

TRANSACTION INFORMATION

Borrower James White and Jane Johnson
 456 Avenue Anywhere
 Anytown, IA 12345
Seller John Wilson
 123 Somewhere Dr.
 Anytown, IA 12345

LOAN INFORMATION

Lender Pecan Bank
 9876 Random Blvd, Ste 504
 Somecity, IA 54321
Loan Type Conventional FHA
 VA _____
Loan Term 30 years
Purpose Purchase
Product Fixed Rate
File No. 0000000000
Loan No. 0000000000
MIC No. 0000000000

Loan Terms		Can this amount increase after closing?
Loan Amount	\$121,000	NO
Interest Rate	3.875%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$568.99	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$568.99	\$568.99
Mortgage Insurance	+ 61.51	+ —
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 0	+ 0
Estimated Total Monthly Payment	\$630.50	\$568.99
Escrow Information for Taxes & Insurance	\$430.30 a month	<input type="checkbox"/> Escrow. Your monthly payment includes your taxes and insurance. <input checked="" type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.

Closing Costs	
Cash to Close	\$16,197.02 \$4,842.00 in Settlement Fees. See Closing Cost Summary on page 5.

Round 6 – Settlement Disclosure design 2, 30 year fixed with no escrow, example B, page 2

LOAN NO. 1330172608
 CREDITOR Pecan Bank
 NMLS ID 989897

LOAN OFFICER Joe Smith
 NMLS ID 767698

EMAIL joesmith@pecanbank.com
 PHONE 555-123-4444

Summary of Borrower's Transaction

100 Total Amount Due from Borrower		
101	Contract sales price	\$135,000.00
102	Personal property	
103	Total Closing Costs from borrower (line 1400)	\$7,235.86
104		
105		
Adjustment for items paid by seller in advance		
106	City/town taxes to	
107	County taxes to	
108	Assessments to	
109		
110		
111		
112		
120	Total Amount Due from Borrower	\$142,235.86

200 Amount Paid by or on Behalf of Borrower		
201	Deposit or earnest money	\$4,000.00
202	Principal amount of new loan(s)	\$121,000.00
203	Existing loan(s) assumed or taken subject to	
204		
205		
206		
207		
208		
209		
Adjustments for items unpaid by seller		
210	City/town taxes to	
211	County taxes 7/1/11 to 11/9/11	\$1,038.84
212	Assessments to	
213		
214		
215		
216		
217		
218		
219		
220	Total Paid by/for Borrower	\$126,038.84

300 Cash at Settlement from/to Borrower		
301	Total amount due from borrower (line 120)	\$142,235.86
302	Total paid by/for borrower (line 220)	(\$126,038.84)
303	Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$16,197.02

Summary of Seller's Transaction

400 Total Amount Due to Seller		
401	Contract sales price	\$135,000.00
402	Personal property	
403		
404		
405		
Adjustment for items paid by seller in advance		
406	City/town taxes to	
407	County taxes to	
408	Assessments to	
409		
410		
411		
412		
420	Total Amount Due to Seller	\$135,000.00

500 Reductions in Amount Due to Seller		
501	Excess deposit (see instructions)	
502	Total Closing Costs from seller (line 1400)	\$9,241.00
503	Existing loan(s) assumed or taken subject to	
504	Payoff of first mortgage loan	
505	Payoff of second mortgage loan	
506		
507		
508		
509		
Adjustments for items unpaid by seller		
510	City/town taxes to	
511	County taxes 7/1/11 to 11/9/11	\$1,038.84
512	Assessments to	
513		
514		
515		
516		
517		
518		
519		
520	Total Reduction in Amount Due Seller	\$10,279.84

600 Cash at Settlement to/from Seller		
601	Total amount due to seller (line 420)	\$135,000.00
602	Total reduction in amount due seller (line 520)	(\$10,279.84)
603	Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller	\$124,720.16

Round 6 – Settlement Disclosure design 2, 30 year fixed with no escrow, example B, page 3

Closing Costs

			Paid From Borrower's Funds at Settlement	Paid From Seller's Funds at Settlement	Paid Outside of Closing See details on page 4
700	Total Real Estate Broker Fees	\$8,750.00			
Division of commission (line 700) as follows:					
701	\$4,375.00	to Reliable Realty Co.			
702	\$4,375.00	to Realty Pros LLC			
703	Commission paid at settlement			\$8,750.00	
704					
800	Origination Charges				
801	1%	Points	\$1,210.00		
802	Underwriting Fee		\$800.00		
803	Processing Fee		\$200.00		
804	Verification Fee		\$300.00		
805	Broker Fee	to Friendly Mortgage Broker Inc.			\$2,420.00
900	Services in Connection with Your Loan				
901	Credit Report Fee	to Creditco			\$12.00
902	Tax Status Research Fee	to Collateral Research Inc.	\$55.00		
903	Flood Determination Fee	to Collateral Research Inc.	\$25.00		
904	Tax Monitoring Fee	to Monitoring Services Inc.	\$35.00		
905	Flood Monitoring Fee	to Monitoring Services Inc.	\$40.00		
906	Appraisal Fee	to Local Appraisal Co.			\$675.00
907	Document Preparation Fee	to Collateral Research Inc.	\$125.00		
908	Survey Fee	to Surveyors Inc.	\$105.00		
909	Pest Inspection Fee	to Home Pest Co.	\$200.00		
910	Borrower's Attorney	to Tyler & Brady LLP	\$400.00		
1000	Title Charges				
1001	Settlement or closing fee	to ABC Settlement Co.	\$350.00		
1002	Abstract or title search	to Regional Title Co.		\$275.00	
1003	Title examination	to Regional Title Co.	\$200.00		
1004	Title insurance binder	to			
1005	Document preparation	to			
1006	Notary fees	to			
1007	Attorney's fees	to			
1008	Title insurance	to Treasurer State of Iowa	\$110.00		
1009	Lender's coverage	\$121,000			
1010	Owner's coverage	\$135,000			
1011					
1012					
1100	Taxes and Other Government Fees				
1101	Recording Fees:	Deed \$27.00 Mortgage \$92.00	\$119.00		
1102	City/county tax/stamps:	Deed \$ Mortgage \$			
1103	State tax/stamps:	Deed \$ Mortgage \$			
1104	Transfer Taxes			\$216.00	
1105					
1200	Prepays				
1201	Property Taxes - Borrower's Share	11/10/11 to 12/31/11	\$397.44		
1202	Homeowner's Insurance Premium (12 months)	to XYZ Ins. Co.	\$596.00		
1203	Mortgage Insurance Premium (0 months)	to			
1204	Flood Insurance Premium (12 months)	to Natl. Flood Co.	\$1,695.00		
1205	Daily Interest Charges from	11/9 to 11/30 @ \$13.02 per day	\$273.42		
1300	Initial Escrow Payment				
1301	Homeowner's Insurance	\$0 per month for 0 mo.			
1302	Mortgage Insurance	\$0 per month for 0 mo.			
1303	Property Taxes	\$0 per month for 0 mo.			
1304	Flood Insurance	\$0 per month for 0 mo.			
1305					
1306					
1307					
1308	Aggregate Adjustment				
1400	Total Closing Costs (enter on lines 103 and 502)		\$7,235.86	\$9,241.00	\$3,107.00

Round 6 – Settlement Disclosure design 2, 30 year fixed with no escrow, example B, page 5

Loan Disclosures

Assumption

If you sell or transfer your home to another person:

- We will allow, under certain conditions, this person to assume this loan on the original terms.
- We will not allow assumption of this loan.

Demand Feature

- Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- Your loan does not have a demand feature.

Escrow Account Information

For now, your loan

- will have an escrow account to pay your home-related costs, such as property taxes and homeowner’s insurance. We estimate that these costs will total \$_____ for the first year of your loan. Without an escrow account, you would pay these potentially large costs directly in semi-annual or annual payments. At closing, you will make an initial deposit of \$_____ into your escrow account. After that, your regular mortgage payments will include an additional \$_____ that will go into your escrow account. We will take money from your account to pay these home-related costs as needed.
- will not have an escrow account. The fee for not having an escrow account is \$ 0 . In addition to your mortgage loan payment, you are personally responsible for directly paying your home-related costs, such as property taxes and homeowner’s insurance. We estimate that these costs will total **\$5,163.60** for the first year of your loan. You must pay these costs in potentially large semi-annual or annual payments.

In the future,

If you have an escrow account, or if one is added later, the amount of your escrow payment may change. In addition, you may be permitted to cancel your escrow account, but if you do so, you will be responsible for directly paying these home-related costs unless you create a new escrow account.

If you do not have an escrow account and fail to pay your property taxes, your state or local government may (1) impose fines and penalties

or (2) place a tax lien on your home. In addition, if you fail to pay any of your home-related costs, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for insurance on your home that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization

Under your loan terms, you

- are scheduled to make monthly payments that are less than the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- have the option of making monthly payments that are less than the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- do not have a negative amortization feature.

Partial Payment Policy

We will accept partial payments. We will apply partial payments:

We will not accept partial payments.

Security Interest

You are granting us a security interest in 1234 Anywhere St., Somecity, IA 54321. You may lose your home if you do not make your payments or satisfy other obligations for this loan.

Loan Calculations

Calculations	
Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$209,634.18
Finance Charge. The dollar amount the credit will cost you.	\$91,527.60
Amount Financed. The amount of credit provided to you or on your behalf.	\$118,106.58
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.38%
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	69.3%
Lender Cost of Funds (LCF). The cost of funds used to make this loan. This is not a cost to you.	1.04%

Closing Costs Summary	
Total Settlement Fees <i>(See total of Sections 800, 900, and 1000 on page 3.)</i>	\$4,842.00
Settlement Fees Financed in the Loan Amount	\$0
Settlement Fees Paid in Cash	\$4,842.00
Total of Other Costs in Connection with the Loan	\$2,042.02

Originator Fees Summary	
Total Fees Paid to Originator	\$2,420.00
Fees Paid by Borrower(s) to Originator	\$0
Fees Paid by Lender to Originator	\$2,420.00

Round 6 – Settlement Disclosure design 2, 30 year fixed with no escrow, example B, page 6

Other Disclosures

Appraisal Copy

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact:

Joe Smith

Pecan Bank

555-123-4444

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which we can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

In the state where your home is located, if your lender forecloses on your home and the foreclosure does not cover the amount of principal remaining on this loan:

- You will not be personally liable for the unpaid principal. If you refinance or take on any additional debt on your home, you may lose this protection (if any) and be personally liable for debt remaining after the foreclosure. You may want to consult an attorney for more information.
- You will be personally liable for the unpaid principal.

Refinance

We do not guarantee that you will be able to refinance your loan to lower your interest rate and payments.

Tax Deductions

If you borrow more than your home is worth, the interest on the loan amount above the home's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Questions

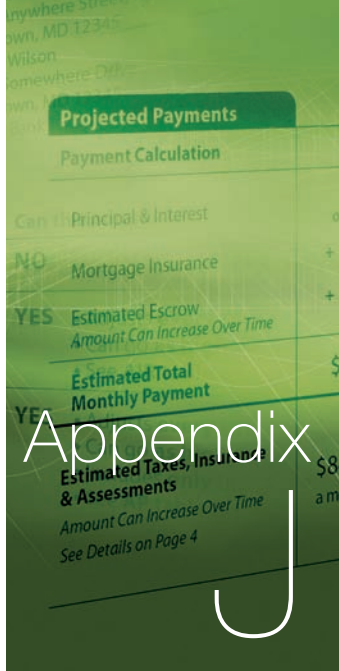
If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Confirm Receipt

By signing below, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form or applied for this loan.

Applicant Signature/Date

Co-Applicant Signature/Date



Loan Estimates, Settlement Disclosures, and Worksheets
for Round 7 – Birmingham, AL

Round 7 – Loan Estimate design 1, 30 year fixed with escrow, example A, page 1

FICUS BANK

4321 Random Boulevard • Somecity, AL 54321

DATE ISSUED 11/1/2011

LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **11/15/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, AL 12345
PROPERTY 456 Avenue A, Anytown, AL 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA
RATE LOCK NO YES, until 12/31/2011 at 3:00 p.m. CST.

Loan Terms		Can this amount increase after closing?
Loan Amount	\$108,000	NO
Interest Rate	4.125%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$523.42	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$523.42	\$523.42
Mortgage Insurance	+ 55	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 127	+ 127
Estimated Total Monthly Payment	\$705	\$650
Information about Escrow for Estimated Taxes & Insurance	\$127 a month <input checked="" type="checkbox"/> Escrow. Your monthly payment includes the items listed in section F on page 2. You must pay other items separately. <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Closing Costs	
Estimated Cash to Close	\$14,222 Closing Costs include \$4,125 in estimated Settlement Fees. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 7 – Loan Estimate design 1, 30 year fixed with escrow, example A, page 2

Calculating Settlement Fees

A. Origination Charges		\$2,005
1 Points %	\$1,080	
Application Fee	\$200	
Processing Fee	\$300	
Underwriting Fee	\$425	

B. Services You Cannot Shop For		\$400
Flood Determination Fee	\$20	
Tax Status Research Fee	\$40	
Flood Monitoring Fee	\$10	
Tax Monitoring Fee	\$15	
Appraisal Fee	\$300	
Credit Report Fee	\$15	

C. Services You Can Shop For		\$1,720
Pest Inspection Fee	\$175	
Survey Fee	\$125	
Title – Commitment Letter	\$100	
Title – Examination	\$290	
Title – Lender’s Policy	\$320	
Title – Owner’s Policy (optional)	\$460	
Settlement Agent Fee	\$250	

Calculation	
A + B + C	\$4,125
Lender Credits	– \$0
Estimated Settlement Fees	\$4,125

Calculating Settlement Costs

D. Taxes and Other Government Fees		\$207
Transfer Taxes	\$0	
Recording Fees	\$45	
Other Taxes and Government Fees	\$162	

E. Prepaids		\$636
Property Taxes (<u>0</u> months)	\$0	
Homeowner’s Insurance Premium (<u>6</u> months)	\$450	
Mortgage Insurance Premium (<u>0</u> months)	\$0	
Prepaid Interest (\$12.38 per day for 15 days @ 4.125%)	\$186	

F. Initial Escrow Payment at Closing			\$254
Taxes & Assessments	\$52.18 per month for 2 mo.		\$104
Homeowner’s Insurance	\$75.00 per month for 2 mo.		\$150
Mortgage Insurance	\$0 per month for 0 mo.		\$0
Flood Insurance	\$0 per month for 0 mo.		\$0
HOA/Condo/Co-op	\$0 per month for 0 mo.		\$0

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculating Cash to Close

Estimated Settlement Fees (A + B + C – Lender Credits)	\$4,125
Estimated Settlement Costs (D + E + F)	\$1,097
Down Payment/Funds from Borrower	\$12,000
Deposit	– \$3,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0
Estimated Cash to Close	\$14,222

Round 7 – Loan Estimate design 1, 30 year fixed with escrow, example A, page 3

ORIGINATOR	Friendly Mortgage Broker, Inc.	LENDER	Ficus Bank	LOAN ID #	1330172608
LOAN OFFICER	Jane Doe	NMLS ID	898897		
PHONE	555-123-4444				
EMAIL	janedoe@fndlymtgbrkr.com				
NMLS ID	767698				

Additional Information About This Loan

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$38,830	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$10,121	Principal you will have paid off.
Annual Percentage Rate (APR)	4.62%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	74.47%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.
Lender Cost of Funds (LCF)	1.35%	The rate the lender pays to borrow money to lend you.

Other Considerations	
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Servicing	<input type="checkbox"/> We intend to service your loan. You will make your payments to us. <input checked="" type="checkbox"/> We intend to transfer servicing of your loan.
Assumption	If you sell or transfer your house to another person, we <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input checked="" type="checkbox"/> will not allow this person to assume this loan on the original terms.
Appraisals	We will promptly give you a copy of any written property appraisals or valuations you pay for, even if the loan does not close.
Refinance	You may not be able to refinance your loan to lower your interest rate and payments in the future with us or with another lender.

Confirm Receipt	
By signing, you are only confirming that you have received this form. You don't have to accept this loan if you have signed or received this form.	
Applicant Signature	Date
Co-Applicant Signature	Date

Round 7 – Settlement Disclosure design 1, 30 year fixed rate with escrow, example A, page 1

Settlement Disclosure

This form is a statement of final loan terms and actual closing costs.

SETTLEMENT INFORMATION

Date 12/13/2011
Agent Martha Jones
Location ABC Settlement
 54321 Random Blvd, Ste 405
 Somecity, AL 54321
Property 1234 Anywhere Street
 Somecity, AL 54321

TRANSACTION INFORMATION

Borrower James White and Jane Johnson
 456 Avenue Anywhere
 Anytown, AL 12345
Seller John Wilson
 123 Somewhere Dr.
 Anytown, AL 12345
Sale Price \$120,000

LOAN INFORMATION

Lender Ficus Bank
 9876 Random Blvd, Ste 504
 Somecity, AL 54321
Loan Type Conventional FHA
 VA _____
Loan Term 30 years
Purpose Purchase
Product Fixed Rate
File # 01234
Loan ID # 1330172608
MIC # 56789

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$108,000	NO
Interest Rate	4.125%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$523.42	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments		
Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$523.42	\$523.42
Mortgage Insurance	+ 54.90	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 246.68	+ 246.68
Estimated Total Monthly Payment	\$825.00	\$770.10
Information about Escrow for Taxes & Insurance	\$246.68 a month <input checked="" type="checkbox"/> Escrow. Your monthly payment includes the items listed in Section 1400 on page 3. You must pay other items separately. <input type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Closing Costs	
Cash to Close	\$16,331.79 Closing Costs include \$4,280.00 in Settlement Fees. See Closing Costs Summary on page 2.

Round 7 – Settlement Disclosure design 1, 30 year fixed rate with escrow, example A, page 2

Closing Costs Summary

Total Settlement Fees	\$4,280.00
Settlement Fees Financed in Loan Amount	—
Settlement Fees Paid in Cash at Closing	\$3,717.00
Settlement Fees Paid Before Closing	\$563.00
Total of Other Costs in Connection with the Loan (Settlement Costs minus Seller Credits)	\$3,614.79

Down Payment Summary

Total Down Payment	\$12,000.00
Deposit	\$3,000.00
Remaining Down Payment Due	\$9,000.00

Summary of Borrower's Transaction

100 Total Amount Due from Borrower			
101	Contract sales price		\$120,000.00
102	Personal property		
103	Total Closing Costs to borrower (line 1600)		\$7,458.40
104			
105			
Adjustment for items paid by seller in advance			
106	City/town taxes	to	
107	County taxes	to	
108	Assessments	to	
109			
110			
111			
120	Total Amount Due from Borrower		\$127,458.40
200 Amount Paid by or on Behalf of Borrower			
201	Deposit or earnest money		\$3,000.00
202	Principal amount of new loan(s)		\$108,000.00
203	Existing loan(s) assumed or taken subject to		
204			
205			
206			
207			
208			
209			
Adjustments for items unpaid by seller			
210	City/town taxes	to	
211	County taxes	10/1/11 to 12/13/11	\$126.61
212	Assessments	to	
213			
214			
215			
216			
217			
218			
220	Total Paid by/for Borrower		\$111,126.61
300 Cash at Settlement from/to Borrower			
301	Total amount due from borrower (line 120)		\$127,458.40
302	Total paid by/for borrower (line 220)		(\$111,126.61)
303	Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower		\$16,331.79

Did Your Closing Costs Increase?

Some Closing Costs are subject to limits on increases.	Loan Estimate	Final
Closing Costs That Cannot Change	\$2,167.00	\$2,167.00
Closing Costs That Can Only Increase 10%	\$1,865.00	\$2,015.00
Increase Between Loan Estimate and Closing Costs	\$0 over limit	

Originator Fees Summary

Total Fees Paid to Originator	\$2,160.00
Paid by Borrower(s)	—
Paid by Lender	\$2,160.00

Summary of Seller's Transaction

400 Total Amount Due to Seller			
401	Contract sales price		\$120,000.00
402	Personal property		
403			
404			
405			
Adjustment for items paid by seller in advance			
406	City/town taxes	to	
407	County taxes	to	
408	Assessments	to	
409			
410			
411			
420	Total Amount Due to Seller		\$120,000.00
500 Reductions in Amount Due to Seller			
501	Excess deposit (see instructions)		
502	Total Closing Costs to seller (line 1600)		\$6,299.00
503	Existing loan(s) assumed or taken subject to		
504	Payoff of first mortgage loan		
505	Payoff of second mortgage loan		
506			
507			
508			
509			
Adjustments for items unpaid by seller			
510	City/town taxes	to	
511	County taxes	10/1/11 to 12/13/11	\$126.61
512	Assessments	to	
513			
514			
515			
516			
517			
518			
520	Total Reduction in Amount Due Seller		\$6,425.61
600 Cash at Settlement to/from Seller			
601	Total amount due to seller (line 420)		\$120,000.00
602	Total reduction in amount due seller (line 520)		(\$6,425.61)
603	Cash <input checked="" type="checkbox"/> To <input type="checkbox"/> From Seller		\$113,574.39

Round 7 – Settlement Disclosure design 1, 30 year fixed rate with escrow, example A, page 3

Closing Costs						
700	Total Real Estate Broker Fees	\$120,000 @ 5.0%	\$6,000.00	Paid at Settlement		Paid Outside of Settlement
	Division of commission (line 700) as follows:			From Borrower's Funds	From Seller's Funds	Amount
701	\$3,000.00	to Reliable Realty Co.				Paid By/To/When
702	\$3,000.00	to Realty Pros LLC				
703	Commission paid at settlement				\$6,000.00	
704						
800	Origination Charges					
801	1	Points		\$1,080.00		
802	Underwriting Fee			\$425.00		
803	Application Fee				\$200.00	Bor/Lend/Before
804	Processing Fee			\$300.00		
805	Broker Fee	to Friendly Mortgage Broker Inc.				\$2,160.00 Lend/Brok/At
900	Services in Connection with Your Loan					
901	Credit Report Fee	to Creditco			\$9.00	Bor/Prov/Before
902	Tax Status Research Fee	to Collateral Research Inc.	\$40.00			
903	Flood Determination Fee	to Collateral Research Inc.	\$35.00			
904	Tax Monitoring Fee	to Monitoring Services Inc.	\$15.00			
905	Flood Monitoring Fee	to Monitoring Services Inc.	\$10.00			
906	Appraisal Fee	to Local Appraisal Co.			\$354.00	Bor/Affl/Before
907	Document Preparation Fee	to Collateral Research Inc.	\$55.00			
908	Survey Fee	to Surveyors Inc.	\$105.00			
909	Pest Inspection Fee	to Home Pest Co.	\$200.00			
910	Structural Inspection Fee	to Home Engineering Corp.			\$275.00	
1000	Title Charges					
1001	Settlement Agent Fee	to ABC Settlement Co.	\$250.00			
1002	Title Examination	to Regional Title Co.	\$290.00			
1003	Title Commitment Letter	to Regional Title Co.	\$100.00			
1004	Courier Fees	to Speedy Delivery Corp.	\$32.00			
1005	Lender's Title Policy	to First Patriotic Title & Guar. Co.	\$320.00			
1006	Coverage: \$108,000					
1007	Owner's Title Policy	to First Patriotic Title & Guar. Co.	\$460.00			
1008	Coverage: \$120,000					
1009						
1010						
1011						
1100	Total Settlement Fees	\$4,280.00 by Borrower	Paid by Borrower at Closing: \$3,717.00	Paid by Borrower Before Closing: \$563.00		
1200	Taxes and Other Government Fees					
1201	Recording Fees:	Deed \$12.00	Mortgage \$45.00	\$45.00	\$12.00	
1202	City/County Tax/Stamps:	Deed \$	Mortgage \$			
1203	State Tax/Stamps:	Deed \$	Mortgage \$			
1204	Transfer Taxes					
1205	Mortgage Tax:	Deed \$12.00	Mortgage \$162.00	\$162.00	\$12.00	
1300	Prepays					
1301	Property Taxes (current period)			\$237.61		
1302	Homeowner's Insurance Premium (12 months) to XYZ Ins. Co.			\$904.00		
1303	Mortgage Insurance Premium (months) to					
1304	Windstorm Insurance Premium (12 months) to Wind Safe Co.			\$1,430.00		
1305	Daily Interest Charges \$12.38 per day from 12/13 to 12/31			\$222.75		
1400	Initial Escrow Payment					
1401	Homeowner's Insurance \$75.33 per month for 3 mo.			\$225.99		
1402	Mortgage Insurance per month for mo.					
1403	City Property Taxes per month for mo.					
1404	County Property Taxes \$52.18 per month for 3 mo.			\$156.54		
1405	Annual Assessments					
1406	Windstorm Insurance \$119.17 per month for 3 mo.			\$357.51		
1407						
1408	Aggregate Adjustment					
1500	Total Settlement Costs	\$3,741.40 by Borrower	Paid by Borrower at Closing: \$3,741.40	Paid by Borrower Before Closing: \$0		
1600	TOTAL CLOSING COSTS (Line 1100 + Line 1500)			\$7,458.40	\$6,299.00	

Loan Disclosures

Assumption

If you sell or transfer your home to another person:

- We will allow, under certain conditions, this person to assume this loan on the original terms.
- We will not allow assumption of this loan.

Demand Feature

- Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- Your loan does not have a demand feature.

Escrow Account Information

For now, your loan

will have an escrow account (also called an "impound" or "trust" account) to pay your home-related costs, such as property taxes and homeowner's insurance. We estimate that these costs will total **\$2,960.16** for the first year of your loan. Without an escrow account, you would directly pay these potentially large costs in semi-annual or annual payments. At closing, you will make an initial deposit of **\$740.04** into your escrow account. After that, your regular mortgage payments will include an additional **\$246.68** that will go into your escrow account. We will take money from your account to pay these home-related costs as needed. If we fail to make payments, we may be liable for penalties and interest.

will not have an escrow account. You do not have an escrow account because ___ you declined an account ___ we do not offer escrow accounts. The fee for not having an escrow account is \$ _____. In addition to your mortgage loan payment, you must directly pay your home-related costs, such as property taxes and homeowner's insurance. We estimate that these costs will total \$ _____ for the first year of your loan. You must pay these costs in potentially large semiannual or annual payments. If you would like an escrow account, you may contact us at _____ by _____.

In the future,

If you have an escrow account, or if one is added later, the amount of your escrow payment may change. In addition, you may be permitted to cancel your escrow account, but if you do so, you will be responsible for directly paying these home-related costs unless you create a new escrow account.

If your property taxes are not paid, your state or local government may (1) impose fines and penalties or (2) place a tax lien on your home. In addition, if you fail to pay any of your home-related costs, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or

- require you to pay for insurance on your home that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- do not have a negative amortization feature.

Partial Payment Policy

- We will accept payments that are less than the full amount due (partial payments). We will apply partial payments:

- We will not accept partial payments.

Security Interest

You are granting us a security interest in 1234 Anywhere St., Somecity, AL 54321. You may lose your home if you do not make your payments or satisfy other obligations for this loan.

Round 7 – Settlement Disclosure design 1, 30 year fixed rate with escrow, example A, page 5

Loan Calculations		Other Disclosures	
Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$281,792.70	Appraisal Copy If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact: <i>Joe Smith</i>	
Finance Charge. The dollar amount the credit will cost you.	\$87,535.65	<i>Ficus Bank</i>	
Amount Financed. The amount of credit provided to you or on your behalf.	\$105,452.25	<i>555-123-4444</i>	
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.65%	Contract Details See your note and security instrument for information about • what happens if you fail to make your payments, • other ways you can default on the loan, • situations in which we can require early repayment of the loan, and • the rules for making payments before they are due.	
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	74.47%	Liability after Foreclosure If your lender forecloses on your home and the foreclosure does not cover the amount of unpaid balance on this loan: <input type="checkbox"/> state law may protect you from personal liability for the unpaid balance. If you refinance or take on any additional debt on your home, you may lose this protection and be personally liable for debt remaining after the foreclosure. You may want to consult an attorney for more information. <input checked="" type="checkbox"/> state law does not protect you from personal liability for the unpaid balance.	
Lender Cost of Funds (LCF). The cost of the funds used to make this loan. This is not a direct cost to you.	1.35%	Refinance You may not be able to refinance your loan to lower your interest rate and payments in the future with us or with another lender.	
Originator Information		Tax Deductions If you borrow more than your home is worth, the interest on the loan amount above the home's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.	
Name	Friendly Mortgage Broker, Inc.		
Phone	555-123-4444		
Email	janedoe@frndlymtgbrkr.com		
NMLS ID	767698		
Questions			
If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov .			
Confirm Receipt			
By signing, you are only confirming that you have received this form. You don't have to complete this transaction if you have signed or received this form.			
Applicant Signature/Date			
Co-Applicant Signature/Date			
SETTLEMENT DISCLOSURE		PAGE 5 OF 5	

Round 7 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B , page 1

Settlement Disclosure

This form is a statement of final loan terms and actual closing costs.

SETTLEMENT INFORMATION

Date 12/13/2011
Agent Martha Jones
Location ABC Settlement
 54321 Random Blvd, Ste 405
 Somecity, AL 54321
Property 1234 Anywhere Street
 Somecity, AL 54321

TRANSACTION INFORMATION

Borrower James White and Jane Johnson
 456 Avenue Anywhere
 Anytown, AL 12345
Seller John Wilson
 123 Somewhere Dr.
 Anytown, AL 12345
Sale Price \$120,000

LOAN INFORMATION

Lender Ficus Bank
 9876 Random Blvd, Ste 504
 Somecity, AL 54321
Loan Type Conventional FHA
 VA
Loan Term 30 years
Purpose Purchase
Product Fixed Rate
File # 01234
Loan ID # 1330172608
MIC # 56789

Loan Terms

		Can this amount increase after closing?
Loan Amount	\$108,000	NO
Interest Rate	4.125%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$523.42	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-7	Years 8-30
Principal & Interest	\$523.42	\$523.42
Mortgage Insurance	+ 54.90	—
Estimated Taxes & Insurance <i>Amount Can Increase Over Time</i>	+ 246.68	+ 246.68
Estimated Total Monthly Payment	\$825.00	\$770.10

Information about Escrow for Taxes & Insurance

See Details on Page 4

\$246.68 a month Escrow. Your monthly payment includes the items listed in Section F on page 2. You must pay other items separately.
 No escrow. You must pay your taxes and insurance separately from your loan payments.

Closing Costs

Cash to Close	\$16,331.79	Closing Costs include \$4,280.00 in Settlement Fees. See details on page 2.
----------------------	-------------	-----------------------------------------------------------------------------

Round 7 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B , page 2

Settlement Fees		Paid at Closing by Borrower	Financed in Loan Amount	Paid at Closing by Seller	Other Payments by Borrower Other
RE. Real Estate Broker Fees					
\$3,000.00 to Reliable Realty Co./ \$3,000.00 to Realty Pros LLC				\$6,000.00	
A. Origination Charges		\$2,005.00			
1 Point(s)		\$1,080.00			
Underwriting Fee		\$425.00			
Application Fee					\$200.00
Processing Fee		\$300.00			
B. Services Borrower Did Not Shop For		\$1,970.00			
Credit Report Fee	to Creditco				\$9.00
Tax Status Research Fee	to Collateral Research Inc.	\$40.00			
Flood Determination Fee	to Collateral Research Inc.	\$35.00			
Tax Monitoring Fee	to Monitoring Services Inc.	\$15.00			
Flood Monitoring Fee	to Monitoring Services Inc.	\$10.00			
Appraisal Fee	to Local Appraisal Co.				\$354.00
Document Preparation Fee	to Collateral Research Inc.	\$55.00			
Settlement Agent Fee	to ABC Settlement Co.	\$250.00			
Title – Examination	to Regional Title Co.	\$290.00			
Title – Commitment Letter	to Regional Title Co.	\$100.00			
Title – Courier Fees	to Speedy Delivery Corp.	\$32.00			
Title – Lender’s Policy	to First Patriotic Title & Guar. Co.	\$108,000	\$320.00		
Title – Owner’s Policy	to First Patriotic Title & Guar. Co.	\$120,000	\$460.00		
C. Services Borrower Did Shop For		\$305.00			
Survey Fee	to Surveyors Inc.	\$105.00			
Pest Inspection Fee	to Home Pest Co.	\$200.00			
Structural Inspection Fee	to Home Engineering Corp.			\$275.00	
CALCULATION					
RE + A + B + C		\$3,717.00		\$6,275.00	\$563.00
Lender Credits					
Subtotals of Settlement Fees		\$3,717.00		\$6,275.00	\$563.00
TOTAL SETTLEMENT FEES PAID BY BORROWER			\$4,280.00		
Settlement Costs					
D. Taxes and Other Government Fees		\$207.00			
Recording Fees	Deed: \$12.00 Mortgage: \$45.00	\$45.00		\$12.00	
City/County Tax/Stamps	Deed: Mortgage:				
State Tax/Stamps	Deed: Mortgage:				
Transfer Taxes					
Mortgage Tax	Deed: \$12.00 Mortgage: \$162.00	\$162.00		\$12.00	
E. Prepaids		\$2,794.36			
Mortgage Insurance Premium (__ mo.)					
Homeowner’s Insurance Premium (12 mo.) to XYZ Ins. Co.		\$904.00			
Property Taxes (current period)		\$237.61			
Windstorm Insurance Premium (12 mo.) to Wind Safe Co.		\$1,430.00			
Prepaid Interest \$12.38 per day from 12/13 to 12/31		\$222.75			
F. Initial Escrow Payment at Closing		\$740.04			
Mortgage Insurance per month for mo.					
Homeowner’s Insurance \$75.33 per month for 3 mo.		\$225.99			
County Property Taxes \$52.18 per month for 3 mo.		\$156.54			
Windstorm Insurance \$119.17 per month for 3 mo.		\$357.51			
HOA/Condo/Co-op per month for mo.					
CALCULATION					
Subtotals of Settlement Costs (D + E + F)		\$3,741.40		\$24.00	
TOTAL SETTLEMENT COSTS PAID BY BORROWER			\$3,741.40		
CALCULATING CLOSING COSTS					
G. Subtotals of Closing Costs (Settlement Fees + Settlement Costs)		\$7,458.40		\$6,299.00	\$563.00
H. TOTAL CLOSING COSTS PAID BY BORROWER			\$8,021.40		

Round 7 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B , page 3

Calculating Borrower's Cash to Close

Total Closing Costs Paid by Borrower (H)	\$8,021.40
Down Payment/Funds from Borrower	\$12,000.00
Deposit	– \$3,000.00
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$126.61
Closing Costs Financed in Loan Amount (G)	– \$0
Other Payments by Borrower (G)	– \$563.00
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$16,331.79

Summary of Borrower's Transaction

I. Due from Borrower at Closing	
Closing Costs Paid at Closing by Borrower (G)	\$7,458.40
Closing Costs Financed in Loan Amount (G)	
Sale Price of Property	\$120,000.00
Sale Price of any Personal Property Included in Sale	
Items Prepaid by Seller that are Due from Borrower	
City/town taxes	to
County taxes	to
Assessments	to
Total	\$127,458.40
J. Paid Already or on Behalf of Borrower at Closing	
Deposit	\$3,000.00
Principal Amount of Borrower's New Loan	\$108,000.00
Existing loan(s) assumed or taken subject to	
Unpaid Items that are Due from Seller	
City/town taxes	to
County taxes	10/1/11 to 12/13/11
Assessments	to
Total	\$111,126.61
CALCULATION	
Total Due from Borrower at Closing (I)	\$127,458.40
Total Paid Already or on Behalf of Borrower at Closing (J)	– \$111,126.61
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$16,331.79

Limits on Increases

Costs That Could Not Increase	Loan Estimate	Final	Over Limit?
A. Origination Charges	\$2,005.00	\$2,005.00	NO
D. Transfer Taxes	\$162.00	\$162.00	NO
Costs That Could Not Increase by More Than 10% in Total	Loan Estimate	Final	Over Limit?
B. Services You Did Not Shop For	\$1,820.00	\$1,970.00	NO
D. Recording Fees	\$45.00	\$45.00	
TOTAL	\$1,865.00	\$2,015.00	

Summary of Seller's Transaction

K. Due to Seller at Closing	
Sale Price of Property	\$120,000.00
Sale Price of any Personal Property Included in Sale	
Items Prepaid by Seller that are Due from Borrower	
City/town taxes	to
County taxes	to
Assessments	to
Total	\$120,000.00
L. Due from Seller at Closing	
Excess Deposit	
Closing Costs Paid at Closing by Seller (G)	\$6,299.00
Existing loan(s) assumed or taken subject to	
Payoff of first mortgage loan	
Payoff of second mortgage loan	
Unpaid Items that are Due from Seller	
City/town taxes	to
County taxes	10/1/11 to 12/13/11
Assessments	to
Total	\$6,425.61
CALCULATION	
Total Due to Seller at Closing (K)	\$120,000.00
Total Due from Seller at Closing (L)	– \$6,425.61
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$113,574.39

Loan Disclosures

Assumption

If you sell or transfer your home to another person:

- We will allow, under certain conditions, this person to assume this loan on the original terms.
- We will not allow assumption of this loan.

Demand Feature

- Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- Your loan does not have a demand feature.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in your home.
- do not have a negative amortization feature.

Partial Payment Policy

- We will accept payments that are less than the full amount due (partial payments). We will apply partial payments:

- We will not accept partial payments.

Security Interest

You are granting us a security interest in 1234 Anywhere St., Somecity, AL 54321. You may lose your home if you do not make your payments or satisfy other obligations for this loan.

Escrow Account Information

For now, your loan

- will have an escrow account (also called an “impound” or “trust” account) to pay your home-related costs, such as property taxes and homeowner’s insurance. We estimate that these costs will total **\$2,960.16** for the first year of your loan. Without an escrow account, you would directly pay these potentially large costs in semi-annual or annual payments. At closing, you will make an initial deposit of **\$740.04** into your escrow account. After that, your regular mortgage payments will include an additional **\$246.68** that will go into your escrow account. We will take money from your account to pay these home-related costs as needed. If we fail to make payments, we may be liable for penalties and interest.

- will not have an escrow account. You do not have an escrow account because ___ you declined an account ___ we do not offer escrow accounts. The fee for not having an escrow account is \$_____. In addition to your mortgage loan payment, you must directly pay your home-related costs, such as property taxes and homeowner’s insurance. We estimate that these costs will total \$_____ for the first year of your loan. You must pay these costs in potentially large semiannual or annual payments. If you would like an escrow account, you may contact us at _____ by _____.

In the future,

If you have an escrow account, or if one is added later, the amount of your escrow payment may change. In addition, you may be permitted to cancel your escrow account, but if you do so, you will be responsible for directly paying these home-related costs unless you create a new escrow account.

If your property taxes are not paid, your state or local government may (1) impose fines and penalties or (2) place a tax lien on your home. In addition, if you fail to pay any of your home-related costs, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for insurance on your home that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Round 7 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B , page 5

Loan Calculations		Other Disclosures	
Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$281,792.70	Appraisal Copy If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact: <hr/> <i>Joe Smith</i> <hr/> <i>Ficus Bank</i> <hr/> <i>555-123-4444</i>	
Finance Charge. The dollar amount the credit will cost you.	\$87,535.65	Contract Details See your note and security instrument for information about • what happens if you fail to make your payments, • other ways you can default on the loan, • situations in which we can require early repayment of the loan, and • the rules for making payments before they are due.	
Amount Financed. The amount of credit provided to you or on your behalf.	\$105,452.25	Liability after Foreclosure If your lender forecloses on your home and the foreclosure does not cover the amount of unpaid balance on this loan: <input type="checkbox"/> state law may protect you from personal liability for the unpaid balance. If you refinance or take on any additional debt on your home, you may lose this protection and be personally liable for debt remaining after the foreclosure. You may want to consult an attorney for more information. <input checked="" type="checkbox"/> state law does not protect you from personal liability for the unpaid balance.	
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.65%	Refinance You may not be able to refinance your loan to lower your interest rate and payments in the future with us or with another lender.	
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	74.47%	Tax Deductions If you borrow more than your home is worth, the interest on the loan amount above the home's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.	
Lender Cost of Funds (LCF). The cost of the funds used to make this loan. This is not a direct cost to you.	1.35%		
Originator Information			
Name	Friendly Mortgage Broker, Inc.		
Phone	555-123-4444		
Email	janedoe@frndlymtgbrkr.com		
NMLS ID	767698		
Originator Fees Summary			
Total Fees Paid to Originator	\$2,160.00		
Paid by Borrower(s)	—		
Paid by Lender	\$2,160.00		
Questions			
If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov .			
Confirm Receipt			
By signing, you are only confirming that you have received this form. You don't have to complete this transaction if you have signed or received this form.			
_____ Applicant Signature/Date			
_____ Co-Applicant Signature/Date			
SETTLEMENT DISCLOSURE		PAGE 5 OF 5	

Round 7 – Worksheet option 1, 5 year interest only with no escrow, example A

FIR BANK

4321 Random Boulevard • Somecity, AL 54321

**Your actual rate, payment, and costs could be higher.
Get an official Loan Estimate before choosing a loan.**

DATE 12/13/2011

APPLICANTS James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, AL 12345
PROPERTY 456 Avenue A, Anytown, AL 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, Fixed Rate
LOAN TYPE Conventional FHA VA _____
RATE LOCK NO YES

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$162,000	NO
Interest Rate	4%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$540.00	YES • Increases to \$855 in year 6 • Includes only interest and no principal until year 6
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments	Years 1-5	Years 6-11	Years 12-30
Payment Calculation			
Principal & Interest	\$540.00	\$855.10	\$855.10
Mortgage Insurance	+ 82	+ 82	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	\$622	\$937	\$855.10
Estimated Taxes & Insurance	\$208 a month	<input type="checkbox"/> Escrow. Your monthly payment includes taxes and insurance. <input checked="" type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Closing Costs		
Estimated Cash to Close	\$14,809	Includes \$5,839 in estimated Settlement Fees.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 7 – Worksheet option 2, 5 year interest only with no escrow, example B

FIR BANK

4321 Random Boulevard • Somecity, AL 54321

This is an example of the costs for this loan, not an official Loan Estimate. Only an official Loan Estimate has specific limits on increases of your costs.

DATE 12/13/2011

APPLICANTS James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, AL 12345
PROPERTY 456 Avenue A, Anytown, AL 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, Fixed Rate
LOAN TYPE Conventional FHA VA _____
RATE LOCK NO YES

Loan Terms		Can this amount increase after closing?	
Loan Amount	\$162,000	NO	
Interest Rate	4%	NO	
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$540.00	YES	<ul style="list-style-type: none"> Increases to \$855 in year 6 Includes only interest and no principal until year 6
Does the loan have these features?			
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments			
Payment Calculation	Years 1-5	Years 6-11	Years 12-30
Principal & Interest	\$540.00	\$855.10	\$855.10
Mortgage Insurance	+ 82	+ 82	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	\$622	\$937	\$855.10
Estimated Taxes & Insurance	\$208 a month	<input type="checkbox"/> Escrow. Your monthly payment includes taxes and insurance. <input checked="" type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Closing Costs	
Estimated Cash to Close	\$14,809 Includes \$5,839 in estimated Settlement Fees.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 7 – Loan Estimate 5 year interest only with no escrow, example B, page 1

FIR BANK

4321 Random Boulevard • Somecity, AL 54321

DATE ISSUED 12/13/2011 LOAN ID # 1330172608

Your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on **12/28/2011** at 3:00 p.m. CST.

Loan Estimate

APPLICANTS James White and Jane Johnson
123 Anywhere Street, Apt 678
Anytown, AL 12345
PROPERTY 456 Avenue A, Anytown, AL 12345

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, Fixed Rate
LOAN TYPE Conventional FHA VA _____
RATE LOCK NO YES

Loan Terms		Can this amount increase after closing?
Loan Amount	\$162,000	NO
Interest Rate	4%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$540.00	YES <ul style="list-style-type: none"> Increases to \$855 in year 6 Includes only interest and no principal until year 6 See AP table on page 2 for details
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments			
Payment Calculation	Years 1-5	Years 6-11	Years 12-30
Principal & Interest	\$540.00	\$855.10	\$855.10
Mortgage Insurance	+ 82	+ 82	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	\$622	\$937	\$855.10
Estimated Taxes & Insurance	\$208 a month	<input type="checkbox"/> Escrow. Your monthly payment includes the items listed in section F on page 2. You must pay other items separately. <input checked="" type="checkbox"/> No escrow. You must pay your taxes and insurance separately from your loan payments.	

Closing Costs	
Estimated Cash to Close	\$14,809 Includes \$5,839 in estimated Settlement Fees. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 7 – Loan Estimate 5 year interest only with no escrow, example B, page 2

Calculating Settlement Fees

A. Origination Charges		\$1,613
.625 Points %	\$1,013	
Processing Fee	\$300	
Underwriting Fee	\$300	

B. Services You Cannot Shop For		\$582
Credit Report Fee	\$7	
Appraisal Fee	\$500	
Tax Status Research Fee	\$25	
Flood Determination Fee	\$50	

C. Services You Can Shop For		\$3,644
Survey Fee	\$70	
Pest Inspection Fee	\$130	
Settlement Agent Fee	\$410	
Title – Search	\$999	
Title – Examination	\$515	
Title – Lender’s Policy	\$520	
Title – Owner’s Policy (optional)	\$1,000	

Calculation	
A + B + C	\$5,839
Lender Credits	– \$0
Estimated Settlement Fees	\$5,839

Adjustable Payment (AP) Table

Negative Amortization? (Increase in Loan Amount)	NO
Step Payments?	NO
Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Monthly Principal & Interest Payments	
First Change/Amount	\$855 starting at 61st payment
Subsequent Changes	No Subsequent changes
Maximum Possible	\$855 starting at 61st payment

Calculating Settlement Costs

D. Taxes and Other Government Fees		\$85
Transfer Taxes	\$0	
Recording Fees	\$85	
Other Taxes and Government Fees	\$0	

E. Prepaids		\$885
Property Taxes (_0_ months)	\$0	
Homeowner’s Insurance Premium (_6_ months)	\$615	
Mortgage Insurance Premium (_0_ months)	\$0	
Prepaid Interest (\$18.00 per day for 15 days @ 4.0%)	\$270	

F. Initial Escrow Payment at Closing				\$0
Taxes & Assessments	\$0	per month for 0 mo.	\$0	
Homeowner’s Insurance	\$0	per month for 0 mo.	\$0	
Mortgage Insurance	\$0	per month for 0 mo.	\$0	
Flood Insurance	\$0	per month for 0 mo.	\$0	
HOA/Condo/Co-op	\$0	per month for 0 mo.	\$0	

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculating Cash to Close

Estimated Settlement Fees (A + B + C – Lender Credits)	\$5,839
Estimated Settlement Costs (D + E + F)	\$970
Down Payment/Funds from Borrower	\$18,000
Deposit	– \$10,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0
Estimated Cash to Close	\$14,809

Round 7 – Loan Estimate 5 year interest only with no escrow, example B, page 3

LOAN OFFICER Joe Smith
 PHONE 555-123-4444
 EMAIL joesmith@firbank.com
 NMLS ID 676698

LENDER Fir Bank
 NMLS ID 898897

LOAN ID # 1330172608

Additional Information About This Loan

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$43,159	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$0	Principal you will have paid off.
Annual Percentage Rate (APR)	4.51%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	78.4%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.
Lender Cost of Funds (LCF)	1.2%	The rate the lender pays to borrow money to lend you.

Other Considerations

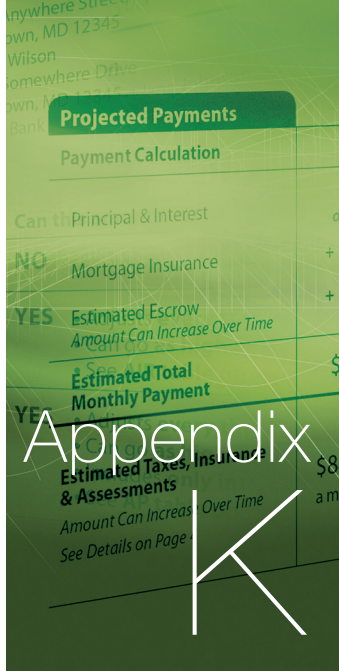
- Late Payment** If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
- Servicing** We intend to service your loan. You will make your payments to us.
 We intend to transfer servicing of your loan.
- Assumption** If you sell or transfer your house to another person, we
 will allow, under certain conditions, this person to assume this loan on the original terms.
 will not allow this person to assume this loan on the original terms.
- Appraisals** We will promptly give you a copy of any written property appraisals or valuations you pay for, even if the loan does not close.
- Refinance** You may not be able to refinance your loan to lower your interest rate and payments in the future with us or with another lender.

Confirm Receipt

By signing, you are only confirming that you have received this form. You don't have to accept this loan if you have signed or received this form.

 Applicant Signature Date

 Co-Applicant Signature Date



Loan Estimate and Settlement Disclosures for Round 8 – Philadelphia, PA

Round 8 – Loan Estimate 30 year fixed with escrow, example A, page 1

FICUS BANK

4321 Random Boulevard • Somecity, PA 54321

Save this Loan Estimate to compare with your final Settlement Disclosure.

Loan Estimate

DATE ISSUED 12/1/2011
APPLICANTS James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, PA 12345
PROPERTY 456 Avenue A, Anytown, PA 12345
LOAN ID # 1330172608

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA VA _____
RATE LOCK NO YES, until 1/30/2012 at 3:00 p.m. EST.

Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 12/15/2011 at 3:00 p.m. EST.

Loan Terms		Can this amount increase after closing?
Loan Amount	\$104,975	NO
Interest Rate	4.375%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$524.13	NO
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments			
Payment Calculation	Years 1-5		Years 6-30
Principal & Interest	\$524.13		\$524.13
Mortgage Insurance	+	32	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+	301	+ 301
Estimated Total Monthly Payment	\$857		\$825
Information about Escrow for Taxes, Insurance & Assessments <i>Amount Can Increase Over Time</i>	\$301 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section F on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.	

Closing Costs	
Estimated Cash to Close	\$25,101 Closing Costs include \$5,170 in estimated Settlement Fees. See details on page 2.

Visit www.consumerfinance.gov/futureurl for general information and tools.

Round 8 – Loan Estimate 30 year fixed with escrow, example A, page 2

PAGE 2 • LOAN ID # 1330172608

Calculating Settlement Fees

A. Origination Charges	\$2,769
.875 Points (% of Loan Amount)	\$919
Underwriting Fee	\$675
Processing Fee	\$300
Verification Fee	\$200
Rate Lock Fee	\$525
Desk Review Fee	\$150
B. Services You Cannot Shop For	\$865
Flood Determination Fee	\$35
Tax Status Research Fee	\$50
Appraisal Fee	\$275
Credit Report Fee	\$30
Lender's Attorney	\$300
Title – Closing Protection Letter	\$75
Appraisal Management Company Fee	\$100
C. Services You Can Shop For	\$1,536
Pest Inspection Fee	\$125
Survey Fee	\$150
Title – PA Combined Title Services Fee	\$979
Title – Settlement Agent Fee	\$250
Title – Courier Fee	\$32
Total Settlement Fees	\$5,170
A + B + C	\$5,170
Lender Credits	– \$0

Limits on Increases: Generally, charges in A and Transfer Taxes in D cannot increase, and the total of the charges in B, C, and Recording Fees in D cannot increase by more than 10%. We will notify you if a change causes an increase above these limits.

Calculating Settlement Costs

D. Taxes and Other Government Fees	\$2,840
Transfer Taxes	\$2,470
Recording Fees	\$370
Other Taxes and Government Fees	\$0
E. Prepaids	\$464
Property Taxes (<u>0</u> months)	\$0
Homeowner's Insurance Premium (<u>12</u> months)	\$375
Mortgage Insurance Premium (<u>0</u> months)	\$0
Prepaid Interest (\$12.76 per day for 7 days @ 4.375%)	\$89
F. Initial Escrow Payment at Closing	\$902
Property Taxes	\$269.44 per month for 3 mo. \$808
Homeowner's Insurance	\$31.25 per month for 3 mo. \$94
Mortgage Insurance	\$0 per month for 0 mo. \$0
Flood Insurance	\$0 per month for 0 mo. \$0
HOA/Condo/Co-op	\$0 per month for 0 mo. \$0
G. Other Costs	\$200
Real Estate Broker Administration Fee	\$200
Total Settlement Costs (D + E + F + G)	\$4,406

Calculating Cash to Close

Total Settlement Fees (A + B + C – Lender Credits)	\$5,170
Total Settlement Costs (D + E + F + G)	\$4,406
Down Payment/Funds from Borrower	\$18,525
Deposit	– \$3,000
Cash to Borrower	– \$0
Seller Credits	– \$0
Other Credits and Adjustments	– \$0
Closing Costs to be Financed	– \$0
Estimated Cash to Close	\$25,101

Additional Information About This Loan

LENDER	Ficus Bank	MORTGAGE BROKER
NMLS ID	111111	NMLS ID
LOAN OFFICER	John Smith	LOAN OFFICER
NMLS ID	487493	NMLS ID
EMAIL	jsmith@ficusbank.com	EMAIL
PHONE	111-222-3333	PHONE

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$38,538	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$9,465	Principal you will have paid off.
Annual Percentage Rate (APR)	4.76%	This is not your interest rate. This rate expresses your costs over the loan term.
Total Interest Percentage (TIP)	79.75%	This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations	
Appraisals	We will promptly give you a copy of any written property appraisals or valuations that you pay for, even if the loan does not close.
Assumption	If you sell or transfer this property to another person, we <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input checked="" type="checkbox"/> will not allow this person to assume this loan on the original terms.
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Refinance	Refinancing this loan will depend on your future financial situation and market conditions. We cannot guarantee that you will be able to refinance this loan.
Servicing	<input type="checkbox"/> We intend to service your loan. You will make your payments to us. <input checked="" type="checkbox"/> We intend to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You don't have to accept this loan, even if you have signed or received this form.

Applicant Signature _____ Date _____ Applicant Signature _____ Date _____

EVOLUTION OF THE INTEGRATED TILA/RESPA DISCLOSURES

Round 8 – Settlement Disclosure design 1, 30 year fixed rate with partial escrow, example A, page 1

Settlement Disclosure

This form is a statement of final loan terms and closing costs. Compare this document to your Loan Estimate.

SETTLEMENT INFORMATION

DATE 1/24/2012
AGENT ABC Settlement
FILE # 01234
PROPERTY 456 Avenue A
 Anytown, PA 12345
SALE PRICE \$123,500

TRANSACTION INFORMATION

BORROWER James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, PA 12345
SELLER John Wilson
 123 Somewhere Drive
 Anytown, PA 12345
LENDER Ficus Bank

LOAN INFORMATION

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA
 VA _____
MIC # 56789
LOAN ID # 1330172608

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$109,805.63	NO
Interest Rate	4.375%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$548.25	NO
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments	Years 1-7		Years 8-30
Payment Calculation			
Principal & Interest	\$548.25		\$548.25
Mortgage Insurance	+	55.82	—
Estimated Escrow <i>Amount Can Increase Over Time</i>	+	422.94	+ 422.94
Estimated Total Monthly Payment	\$1,027.01		\$971.19
Estimated Taxes, Insurance & Assessments <i>Amount Can Increase Over Time See Details on Page 4</i>	\$551.25 a month	<input type="checkbox"/> Escrow. Your escrow payment covers your taxes, insurance & assessments on the property. <input checked="" type="checkbox"/> Partial Escrow. Your escrow payment only covers the property costs in Section F on page 3. Some of your costs are not in escrow. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.	

Closing Costs		
Cash to Close	\$27,625.00	Closing Costs include \$5,519.53 in Settlement Fees. See details on page 3.

Round 8 – Settlement Disclosure design 1, 30 year fixed rate with partial escrow, example A, page 2

What Changed?

CALCULATING CASH TO CLOSE	Estimate	Final
Settlement Fees	\$5,170.00	\$5,519.53
A. Origination Charges	\$2,769.00	\$2,810.90
B. Services You Cannot/Did Not Shop For	\$865.00	\$2,583.63
C. Services You Can/Did Shop For	\$1,536.00	\$125.00
Settlement Costs	\$4,406.37	\$8,093.51
D. Taxes & Other Government Fees	\$2,840.00	\$2,840.00
E. Prepays	\$464.30	\$1,935.38
F. Initial Escrow Payments at Closing	\$902.07	\$846.82
G. Other Costs	\$200.00	\$2,471.31
Down Payment/Funds from Borrower	\$18,525.00	\$18,525.00
Deposit	– \$3,000.00	– \$3,000.00
Cash to Borrower	\$0	\$0
Seller Credits	\$0	\$0
Other Credits and Adjustments	\$0	\$3,317.59
Closing Costs to be Financed	\$0	– \$4,830.63
Cash to Close	\$25,101.37	\$27,625.00

INTEREST RATE CHANGES	Estimate	Final
Interest rate	4.375%	4.375%
Can interest rate change after closing?	NO	NO
Did adjustable rate terms change?	N/A	

INCREASES OVER LIMITS	Estimate	Final	Over Limit?
Costs That Could Not Increase			
A. Origination Charges	\$2,769.00	\$2,810.90	YES \$41.90
D. Transfer Taxes	\$2,470.00	\$2,470.00	NO
Costs That Could Not Increase by More Than 10% in Total			
B. Services You Did Not Shop For	\$2,276.00	\$2,583.63	YES \$43.03
D. Recording Fees	\$370.00	\$370.00	
TOTAL	\$2,646.00	\$2,953.63	

Summaries of Transactions

BORROWER'S TRANSACTION

Due from Borrower at Closing		\$140,430.63
01	Closing Costs Paid at Closing by Borrower (H)	\$8,782.41
02	Closing Costs Financed in Loan Amount (H)	\$4,830.63
03	Sale price of property	\$123,500.00
04	Sale price of any personal property included in sale	
05		
06		
07	Other Credits & Adjustments	
08	Items Prepaid by Seller that are Due from Borrower	
09	City/town taxes 1/24/12 to 12/31/12	\$3,030.09
10	County taxes to	
11	Assessments to	
12	HOA dues 1/24/12 to 3/31/12 (quarterly)	\$287.50
13		
14		
Paid Already or on Behalf of Borrower at Closing		\$112,805.63
01	Deposit	\$3,000.00
02	Principal amount of borrower's new loan	\$109,805.63
03	Existing loan(s) assumed or taken subject to	
04		
05		
06	Other Credits & Adjustments	
07		
08		
09		
10	Adjustments for Items Unpaid by Seller	
11	City/town taxes to	
12	County taxes to	
13	Assessments to	
14		
15		
16		
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower		\$27,625.00
Total Due from Borrower at Closing		\$140,430.63
Total Paid Already or on Behalf of Borrower at Closing		– \$112,805.63

SELLER'S TRANSACTION

Due to Seller at Closing		\$126,817.59
01	Sale price of property	\$123,500.00
02	Sale price of any personal property included in sale	
03		
04		
05		
06		
07		
08	Items Prepaid by Seller that are Due from Borrower	
09	City/town taxes 1/24/12 to 12/31/12	\$3,030.09
10	County taxes to	
11	Assessments to	
12	HOA dues 1/24/12 to 3/31/12 (quarterly)	\$287.50
13		
14		
Due from Seller at Closing		\$87,807.87
01	Excess deposit	
02	Closing costs paid at closing by seller (H)	\$8,645.00
03	Existing loan(s) assumed or taken subject to	
04	Payoff of first mortgage loan	\$79,162.87
05	Payoff of second mortgage loan	
06		
07		
08		
09		
10	Adjustments for Items Unpaid by Seller	
11	City/town taxes to	
12	County taxes to	
13	Assessments to	
14		
15		
16		
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller		\$39,009.72
Total Due to Seller at Closing		\$126,817.59
Total Due from Seller at Closing		– \$87,807.87

Round 8 – Settlement Disclosure design 1, 30 year fixed rate with partial escrow, example A, page 3

Closing Cost Details	Borrower-Paid			Seller-Paid		Paid by Others
	Paid at Closing	Paid Before Closing	Financed in Loan Amt.	Paid at Closing	Paid Before Closing	
SETTLEMENT FEES						
A. Origination Charges		\$2,810.90				
01 .875 Point(s)	\$960.90					
02 Underwriting Fee			\$800.00			
03 Processing Fee			\$300.00			
04 Verification Fee			\$75.00			
05 Rate Lock Fee			\$525.00			
06 Desk Review Fee			\$150.00			
B. Services Borrower Did Not Shop For		\$2,583.63				
01 Credit Report Fee to Credit Co.			\$30.00			
02 Appraisal Fee to Local Appraisal Co.	\$335.00					
03 Document Preparation Fee to Collateral Research Inc.			\$55.00			
04 Tax Status Research Fee to Collateral Research Inc.			\$25.00			
05 Flood Determination Fee to Collateral Research Inc.			\$35.00			
06 Tax Monitoring Fee to Monitoring Services Inc.			\$15.00			
07 Flood Monitoring Fee to Monitoring Services Inc.			\$10.00			
08 Lender's Attorney to BF Law Group			\$325.00			
09 Title – Closing Protection Letter to Regional Title Co.	\$75.00					
10 Appraisal Mgmt. Co. Fee to AMC Co.			\$100.00			
11 Title – PA Inclusive Title Fee to Regional Title Co.			\$1,076.63			
12 Lender Coverage \$109,805.63 / Owner Coverage \$123,500						
13 Title – Settlement Agent Fee to Regional Title Co.			\$310.00			
14 Title – Courier Fee to Quick Delivery Co.			\$32.00			
15 Survey Fee to ABC Surveys Co.			\$160.00			
C. Services Borrower Did Shop For		\$125.00				
01 Pest Inspection Fee to Home Pest Co.			\$125.00			
02						
03						
Settlement Fees (A + B + C)	\$1,370.90	\$0	\$4,148.63			
Lender Credits						
TOTAL BORROWER-PAID SETTLEMENT FEES		\$5,519.53				
SETTLEMENT COSTS						
D. Taxes and Other Government Fees		\$2,840.00				
01 Commonwealth of PA Transfer Tax	\$617.50			\$617.50		
02 City of Philadelphia Transfer Tax	\$1,852.50			\$1,852.50		
03 Recording Fees Deed: \$200.00 Mortgage: \$170.00	\$370.00					
04						
E. Prepays		\$1,935.38				
01 Mortgage Insurance Premium (__mo.)						
02 Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.			\$682.00			
03 Flood Insurance Premium (12 mo.) to Flood Safe Co.	\$1,160.00					
04 Property Taxes (__mo.)						
05 Prepaid Interest \$13.34 per day from 1/24/12 to 1/31/12	\$93.38					
06						
F. Initial Escrow Payment at Closing		\$846.82				
01 Mortgage Insurance per month for mo.						
02 Homeowner's Insurance \$56.83 per month for 3 mo.	\$170.49					
03 Property Taxes \$269.44 per month for 3 mo.	\$808.32					
04 Flood Insurance \$96.67 per month for 3 mo.	\$290.01					
05 HOA/Condo/Co-op per month for mo.						
06 Aggregate Adjustment	– \$422.00					
G. Other Costs		\$2,471.31				
01 \$3,087.50 to Reliable Realty Co./ \$3,087.50 to Realty Pros LLC				\$6,175.00		
02 Real Estate Broker Administration Fee to Reliable Realty Co.	\$200.00					
03 Structural Inspection Fee to Home Engineering Corp.	\$325.00					
04 Inspection Fee to Inspector Home Co.	\$245.00					
05 HOA Processing Fee to 456 HOA	\$500.00					
06 Home Warranty to Warrant Row Co.	\$211.31					
07 Mobile Signing Agent to Quick Signing Co.	\$150.00					
08 Borrower Attorney to Law Phil LLP	\$840.00					
Settlement Costs (D + E + F + G)	\$7,411.51	\$0	\$682.00			
TOTAL BORROWER-PAID SETTLEMENT COSTS		\$8,093.51				
H. TOTAL CLOSING COSTS (Settlement Fees + Settlement Costs)	\$8,782.41	\$0	\$4,830.63	\$8,645.00		
TOTAL BORROWER-PAID CLOSING COSTS		\$13,613.04				

Round 8 – Settlement Disclosure design 1, 30 year fixed rate with partial escrow, example A, page 4

Loan Disclosures

Assumption

If you sell or transfer this property to another person

- We will allow, under certain conditions, this person to assume this loan on the original terms.
- We will not allow assumption of this loan.

Demand Feature

- Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- Your loan does not have a demand feature.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- do not have a negative amortization feature.

Partial Payment Policy

- We will accept payments that are less than the full amount due (partial payments). We will apply partial payments:

- We will not accept partial payments.

Security Interest

You are granting us a security interest in 456 Avenue A, Anytown, PA 12345. You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account Information

For now, your loan

- will have an escrow account (also called an "impound" or "trust" account) to pay the property costs listed in Section F on page 3 for you. If we fail to make a payment, we may be liable for penalties and interest. Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.

Year 1 Property Costs

Estimated Property Costs Escrowed	\$5,075.28	The total costs over year 1 of items listed in Section F on page 3.
Initial Escrow Payment	\$846.82	The payment in Section F on page 3 is a cushion for the escrow account.
Monthly Escrow Payment	\$422.94	The amount included in your total monthly payment.
Estimated Property Costs Not Escrowed	\$1,539.72	Property costs that are not escrowed: HOA dues You may have other property costs not listed here.

- will not have an escrow because ____ you declined an account ____ we do not offer escrow accounts. You must directly pay your property costs, such as property taxes and homeowner's insurance.

Estimated Costs

Year 1, Estimated Property Costs		Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.
Fee for No Escrow Account		

Contact us to ask whether your loan can have an escrow account.

In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly unless you create a new escrow account. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for property insurance that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could buy on your own.

Round 8 – Settlement Disclosure design 1, 30 year fixed rate with partial escrow, example A, page 5

Loan Calculations

Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$354,038.18
Finance Charge. The dollar amount the loan will cost you.	\$94,978.46
Amount Financed. The amount of credit provided to you or on your behalf.	\$106,801.32
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.92%
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	79.75%
Average Cost of Funds (ACF). This represents the average cost of borrowing funds to make mortgage loans for financial institutions that report to the Federal Home Loan Bank of San Francisco.	1.20%

Other Disclosures

Appraisal Copy

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact John Smith at Ficus Bank at 111-222-3333.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which we can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information.
- state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation and market conditions. We cannot guarantee that you will be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.



Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker	Real Estate Broker	Settlement Agent
Name	Ficus Bank		Reliable Realty Co.	Realty Pros	ABC Settlement
Address	4321 Liberty Blvd. Somecity, PA 54321		1776 Franklin St. Ste 405 Anytown, PA 12345	3456 Benjamin Blvd. Anytown, PA 12345	5432 Liberty Blvd. Ste 405 Somecity, PA 54321
NMLS ID	111111				
Contact	John Smith		Jon Anderson	Steve Walsh	Nancy Jones
Loan Officer NMLS ID	487493				
Email	jsmith@ ficusbank.com		janderson@ RRealty.com	swalsh@ realtypros.com	njones@ ABCsettlement.com
Phone	111-222-3333		444-555-6666	555-666-7777	666-777-8888

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to complete this transaction, even if you have signed or received this form.

Applicant Signature _____ Date _____ Applicant Signature _____ Date _____

Round 8 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B, page 1

Settlement Disclosure

This form is a statement of final loan terms and closing costs. Compare this document to your Loan Estimate.

SETTLEMENT INFORMATION

DATE 1/24/2012
AGENT ABC Settlement
FILE # 01234
PROPERTY 456 Avenue A
 Anytown, PA 12345
SALE PRICE \$123,500

TRANSACTION INFORMATION

BORROWER James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, PA 12345
SELLER John Wilson
 123 Somewhere Drive
 Anytown, PA 12345
LENDER Ficus Bank

LOAN INFORMATION

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT Fixed Rate
LOAN TYPE Conventional FHA
 VA _____
MIC # 56789
LOAN ID # 1330172608

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$109,805.63	NO
Interest Rate	4.375%	NO
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$548.25	NO
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments	Years 1-7		Years 8-30	
Payment Calculation				
Principal & Interest	\$548.25		\$548.25	
Mortgage Insurance	+	55.82	—	
Estimated Escrow <i>Amount Can Increase Over Time</i>	+	422.94	+	422.94
Estimated Total Monthly Payment	\$1,027.01		\$971.19	
Information about Escrow for Taxes, Insurance & Assessments <i>Amount Can Increase Over Time See Details on Page 4</i>	\$422.94 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section F on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.		

Closing Costs		
Cash to Close	\$27,625.00	Closing Costs include \$5,519.53 in Settlement Fees. See details on page 2.

Round 8 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B, page 2

Closing Cost Details	Borrower-Paid			Seller-Paid		Paid by Others
	Paid at Closing	Paid Before Closing	Financed in Loan Amt.	Paid at Closing	Paid Before Closing	
SETTLEMENT FEES						
A. Origination Charges	\$2,810.90					
.875 Point(s)	\$960.90					
Underwriting Fee			\$800.00			
Processing Fee			\$300.00			
Verification Fee			\$75.00			
Rate Lock Fee			\$525.00			
Desk Review Fee			\$150.00			
B. Services Borrower Did Not Shop For	\$2,583.63					
Credit Report Fee to Credit Co.			\$30.00			
Appraisal Fee to Local Appraisal Co.	\$335.00					
Document Preparation Fee to Collateral Research Inc.			\$55.00			
Tax Status Research Fee to Collateral Research Inc.			\$25.00			
Flood Determination Fee to Collateral Research Inc.			\$35.00			
Tax Monitoring Fee to Monitoring Services Inc.			\$15.00			
Flood Monitoring Fee to Monitoring Services Inc.			\$10.00			
Lender's Attorney to BF Law Group			\$325.00			
Title – Closing Protection Letter to Regional Title Co.	\$75.00					
Appraisal Mgmt. Co. Fee to AMC Co.			\$100.00			
Title – PA Inclusive Title Fee to Regional Title Co.			\$1,076.63			
Lender Coverage \$109,805.63 / Owner Coverage \$123,500						
Title – Settlement Agent Fee to Regional Title Co.			\$310.00			
Title – Courier Fee to Quick Delivery Co.			\$32.00			
Survey Fee to ABC Surveys Co.			\$160.00			
C. Services Borrower Did Shop For	\$125.00					
Pest Inspection Fee to Home Pest Co.			\$125.00			
Settlement Fees (A + B + C)	\$1,370.90	\$0	\$4,148.63			
Lender Credits						
TOTAL BORROWER-PAID SETTLEMENT FEES	\$5,519.53					
SETTLEMENT COSTS						
D. Taxes and Other Government Fees	\$2,840.00					
Commonwealth of PA Transfer Tax	\$617.50			\$617.50		
City of Philadelphia Transfer Tax	\$1,852.50			\$1,852.50		
Recording Fees Deed: \$200.00 Mortgage: \$170.00	\$370.00					
E. Prepays	\$1,935.38					
Mortgage Insurance Premium (__mo.)						
Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.			\$682.00			
Flood Insurance Premium (12 mo.) to Flood Safe Co.	\$1,160.00					
Property Taxes (__mo.)						
Prepaid Interest \$13.34 per day from 1/24/12 to 1/31/12	\$93.38					
F. Initial Escrow Payment at Closing	\$846.82					
Mortgage Insurance per month for mo.						
Homeowner's Insurance \$56.83 per month for 3 mo.	\$170.49					
Property Taxes \$269.44 per month for 3 mo.	\$808.32					
Flood Insurance \$96.67 per month for 3 mo.	\$290.01					
HOA/Condo/Co-op per month for mo.						
Aggregate Adjustment	-\$422.00					
G. Other Costs	\$2,471.31					
\$3,087.50 to Reliable Realty Co./ \$3,087.50 to Realty Pros LLC				\$6,175.00		
Real Estate Broker Administration Fee to Reliable Realty Co.	\$200.00					
Structural Inspection Fee to Home Engineering Corp.	\$325.00					
Inspection Fee to Inspector Home Co.	\$245.00					
HOA Processing Fee to 456 HOA	\$500.00					
Home Warranty to Warrant Row Co.	\$211.31					
Mobile Signing Agent to Quick Signing Co.	\$150.00					
Borrower Attorney to Law Phil LLP	\$840.00					
Settlement Costs (D + E + F + G)	\$7,411.51	\$0	\$682.00			
TOTAL BORROWER-PAID SETTLEMENT COSTS	\$8,093.51					
H. TOTAL CLOSING COSTS (Settlement Fees + Settlement Costs)	\$8,782.41	\$0	\$4,830.63	\$8,645.00		
TOTAL BORROWER-PAID CLOSING COSTS	\$13,613.04					

Round 8 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B, page 3

What Changed?

CALCULATING CASH TO CLOSE	Estimate	Final
Settlement Fees	\$5,170.00	\$5,519.53
Settlement Costs	\$4,406.37	\$8,093.51
Down Payment/Funds from Borrower	\$18,525.00	\$18,525.00
Deposit	– \$3,000.00	– \$3,000.00
Cash to Borrower	\$0	\$0
Seller Credits	\$0	\$0
Other Credits and Adjustments	\$0	\$3,317.59
Closing Costs to be Financed	\$0	– \$4,830.63
Cash to Close	\$25,101.37	\$27,625.00

INCREASES OVER LIMITS	Estimate	Final	Over Limit?
Costs That Could Not Increase			
A. Origination Charges	\$2,769.00	\$2,810.90	YES \$41.90
D. Transfer Taxes	\$2,470.00	\$2,470.00	NO
Costs That Could Not Increase by More Than 10% in Total			
B. Services You Did Not Shop For	\$2,276.00	\$2,583.63	YES \$43.03
D. Recording Fees	\$370.00	\$370.00	
TOTAL	\$2,646.00	\$2,953.63	

INTEREST RATE CHANGES	Estimate	Final
Interest rate	4.375%	4.375%
Can interest rate change after closing?	NO	NO
Did adjustable rate terms change?	N/A	

Summaries of Transactions

BORROWER'S TRANSACTION

I. Due from Borrower at Closing	\$140,430.63
Closing Costs Paid at Closing by Borrower (H)	\$8,782.41
Closing Costs Financed in Loan Amount (H)	\$4,830.63
Sale price of property	\$123,500.00
Sale price of any personal property included in sale	

Other Credits & Adjustments

Items Prepaid by Seller that are Due from Borrower			
City/town taxes	1/24/12	to 12/31/12	\$3,030.09
County taxes	to		
Assessments	to		
HOA dues	1/24/12	to 3/31/12 (quarterly)	\$287.50

J. Paid Already or on Behalf of Borrower at Closing	\$112,805.63
Deposit	\$3,000.00
Principal amount of borrower's new loan	\$109,805.63
Existing loan(s) assumed or taken subject to	

Other Credits & Adjustments

Adjustments for Items Unpaid by Seller			
City/town taxes	to		
County taxes	to		
Assessments	to		

CALCULATION

Total Due from Borrower at Closing (I)	\$140,430.63
Total Paid Already or on Behalf of Borrower at Closing (J)	– \$112,805.63
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$27,625.00

SELLER'S TRANSACTION

K. Due to Seller at Closing	\$126,817.59
Sale price of property	\$123,500.00
Sale price of any personal property included in sale	

Items Prepaid by Seller that are Due from Borrower			
City/town taxes	1/24/12	to 12/31/12	\$3,030.09
County taxes	to		
Assessments	to		
HOA dues	1/24/12	to 3/31/12 (quarterly)	\$287.50

L. Due from Seller at Closing	\$87,807.87
Excess deposit	
Closing costs paid at closing by seller (H)	\$8,645.00
Existing loan(s) assumed or taken subject to	
Payoff of first mortgage loan	\$79,162.87
Payoff of second mortgage loan	

Adjustments for Items Unpaid by Seller			
City/town taxes	to		
County taxes	to		
Assessments	to		

CALCULATION

Total Due to Seller at Closing (K)	\$126,817.59
Total Due from Seller at Closing (L)	– \$87,807.87
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$39,009.72

Loan Disclosures

Assumption

If you sell or transfer this property to another person

- We will allow, under certain conditions, this person to assume this loan on the original terms.
- We will not allow assumption of this loan.

Demand Feature

- Your loan has a demand feature, which permits the lender to demand early repayment of the loan. If this loan has a demand feature, you should review your note for details.
- Your loan does not have a demand feature.

Late Payment

If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- do not have a negative amortization feature.

Partial Payment Policy

- We will accept payments that are less than the full amount due (partial payments). We will apply partial payments:

- We will not accept partial payments.

Security Interest

You are granting us a security interest in 456 Avenue A, Anytown, PA 12345. You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Escrow Account Information

For now, your loan

- will have an escrow account (also called an “impound” or “trust” account) to pay the property costs in Section F on page 2, such as property taxes and homeowner’s insurance. We estimate that these costs will total **\$5,075.28** for the first year of your loan. Without an escrow account, you would directly pay these potentially large costs in semi-annual or annual payments. You may have other property costs that are not being paid into the escrow account, which you must directly pay yourself. At closing, you will make an initial deposit of **\$846.82** into your escrow account. After that, your regular mortgage payments will include an additional **\$422.94** that will go into your escrow account. We will take money from your account to pay these property costs as needed. If we fail to make payments, we may be liable for penalties and interest.
- will not have an escrow account. You do not have an escrow account because ____ you declined an account ____ we do not offer escrow accounts. The fee for not having an escrow account is \$ _____. In addition to your mortgage loan payment, you must directly pay your property costs, such as property taxes and homeowner’s insurance. We estimate that these costs will total \$ _____ for the first year of your loan. You must pay these costs in potentially large semiannual or annual payments. If you would like an escrow account, you may contact us at _____.

In the future,

If you have an escrow account, or if one is added later, the amount of your escrow payment may change. In addition, you may be permitted to cancel your escrow account, but if you do so, you will be responsible for directly paying these property costs unless you create a new escrow account.

If your property taxes are not paid, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. In addition, if you fail to pay any of your property costs, we may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for insurance on the property that we buy on your behalf, which likely would be more expensive and provide fewer benefits than what you could obtain on your own.

Round 8 – Settlement Disclosure design 2, 30 year fixed rate with escrow, example B, page 5

Loan Calculations

Total of Payments. The amount you have paid after you have made all 360 payments as scheduled.	\$354,038.18
Finance Charge. The dollar amount the loan will cost you.	\$94,978.46
Amount Financed. The amount of credit provided to you or on your behalf.	\$106,801.32
Annual Percentage Rate (APR). This is not your interest rate. This rate expresses your costs over the loan term.	4.92%
Total Interest Percentage (TIP). This rate is the total amount of interest that you will pay over the loan term as a percentage of your loan amount.	79.75%
Lender Cost of Funds (LCF). The cost of the funds used to make this loan. This is not a direct cost to you.	1.20%

Other Disclosures

Appraisal Copy

If you paid for a written appraisal or valuation of the property, we are required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact John Smith at Ficus Bank at 111-222-3333.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which we can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information.
- state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation and market conditions. We cannot guarantee that you will be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.

Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker	Real Estate Broker	Settlement Agent
Name	Ficus Bank		Reliable Realty Co.	Realty Pros	ABC Settlement
Address	4321 Liberty Blvd. Somecity, PA 54321		1776 Franklin St. Ste 405 Anytown, PA 12345	3456 Benjamin Blvd. Anytown, PA 12345	5432 Liberty Blvd. Ste 405 Somecity, PA 54321
NMLS ID	111111				
Contact	John Smith		Jon Anderson	Steve Walsh	Nancy Jones
Loan Officer NMLS ID	487493				
Email	jsmith@ficusbank.com		janderson@RRealty.com	swalsh@realtypros.com	njones@ABCsettlement.com
Phone	111-222-3333		444-555-6666	555-666-7777	666-777-8888

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to complete this transaction, even if you have signed or received this form.

Applicant Signature

Date

Applicant Signature

Date

anywhere Street
 own, MD 12345
 Wilson
 somewhere Drive
 own, MD 12345
 Ban

Projected Payments

Payment Calculation

Can this be paid?	Principal & Interest	o
NO	Mortgage Insurance	+
YES	Estimated Escrow Amount Can Increase Over Time	+
YES	Estimated Total Monthly Payment	\$
	Estimated Taxes, Insurance & Assessments Amount Can Increase Over Time See Details on Page 4	\$8 a m

Appendix

Loan Estimate and Settlement Disclosures for Round 9 – Austin, TX

Round 9 – Loan Estimate 5 year interest only, 5/3 ARM for \$211,000 with escrow, example A, page 1

FICUS BANK

4321 Random Boulevard • Somecity, TX 54321

Save this Loan Estimate to compare with your Settlement Disclosure.

Loan Estimate

DATE ISSUED 1/3/2012
APPLICANTS James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, TX 12345
PROPERTY 456 Avenue A, Anytown, TX 12345
SALE PRICE \$240,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, 5/3 Adjustable Rate
LOAN TYPE Conventional FHA VA _____
LOAN ID # 1330172608
RATE LOCK NO YES, until 2/29/2012 at 3:00 p.m. CST.
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 1/18/2012 at 3:00 p.m. CST.

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$211,000	NO
Interest Rate	4.375%	YES <ul style="list-style-type: none"> • Adjusts every three years starting in year 6 • Can go as high as 8% in year 9 • See AIR table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$769.27	YES <ul style="list-style-type: none"> • Adjusts every three years starting in year 6 • Can go as high as \$1,622 in year 9 • Includes interest only and no principal until year 6 • See AP table on page 2 for details
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments				
Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$769.27	\$1,233 min \$1,542 max	\$1,233 min \$1,622 max	\$1,233 min \$1,622 max
Mortgage Insurance	+ 107	+ 107	+ 107	+ —
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 533	+ 533	+ 533	+ 533
Estimated Total Monthly Payment	\$1,409	\$1,873 – \$2,182	\$1,873 – \$2,262	\$1,766 – \$2,155

Escrow Information for Taxes, Insurance & Assessments <i>Amount Can Increase Over Time</i>	\$533 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section G on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.
----------------------------------------------------------------------------------------------------------	---------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Closing Costs	
Estimated Cash to Close	\$32,120 Closing Costs include \$5,963 in estimated Settlement Fees. See details on page 2.

Visit www.consumerfinance.gov/learnmore for general information and tools.

Round 9 – Loan Estimate 5 year interest only, 5/3 ARM for \$211,000 with escrow, example A, page 2

Closing Cost Details

Settlement Fees

A. Origination Charges	\$2,850
% of Loan Amount (Points)	\$0
Desk Review Fee	\$150
Loan Origination Fee	\$1,000
Processing Fee	\$300
Rate Lock Fee	\$525
Underwriting Fee	\$675
Verification Fee	\$200

B. Services You Cannot Shop For	\$820
Appraisal Fee	\$305
Credit Report Fee	\$30
Flood Determination Fee	\$35
Lender's Attorney	\$400
Tax Status Research Fee	\$50

C. Services You Can Shop For	\$2,293
Pest Inspection Fee	\$125
Survey Fee	\$150
Title – Courier Fee	\$32
Title – Lender's Title Policy	\$100
Title – Owner's Title Policy	\$1,436
Title – Settlement Agent Fee	\$300
Title – Title Search	\$150

D. TOTAL SETTLEMENT FEES	\$5,963
Settlement Fees (A + B + C)	\$5,963
Lender Credits	– \$0

Adjustable Payment (AP) Table

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,233 – \$1,542 at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$1,622 starting at 108th payment

Settlement Costs

E. Taxes and Other Government Fees	\$152
Recording Fees and Other Taxes	\$152
Transfer Taxes	\$0

F. Prepaids	\$1,205
Homeowner's Insurance Premium (<u>12</u> months)	\$1,000
Mortgage Insurance Premium (<u>0</u> months)	\$0
Prepaid Interest (\$25.64 per day for 8 days @ 4.375%)	\$205
Property Taxes (<u>0</u> months)	\$0

G. Initial Escrow Payment at Closing	\$1,600
Flood Insurance	\$0 per month for 0 mo. \$0
HOA/Condo/Co-op	\$0 per month for 0 mo. \$0
Homeowner's Insurance	\$83.33 per month for 3 mo. \$250
Mortgage Insurance	\$0 per month for 0 mo. \$0
Property Taxes	\$450.00 per month for 3 mo. \$1,350

H. Other Costs	\$200
Real Estate Broker Administration Fee	\$200

I. TOTAL SETTLEMENT COSTS (E + F + G + H)	\$3,157
--------------------------------------------------	----------------

J. TOTAL CLOSING COSTS (D + I)	\$9,120
---------------------------------------	----------------

Calculating Cash to Close

Total Closing Costs (J)	\$9,120
Closing Costs Financed (Included in Loan Amount)	\$0
Down Payment/Funds from Borrower	\$29,000
Deposit	– \$5,000
Cash to Borrower	\$0
Seller Credits	– \$1,000
Other Adjustments and Credits	\$0
Estimated Cash to Close	\$32,120

Adjustable Interest Rate (AIR) Table

Index + Margin	LIBOR + 4%
Initial Interest Rate	4.375%
Minimum/Maximum Interest Rate	5%/8%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	3%
Subsequent Changes	3%

Round 9 – Loan Estimate 5 year interest only, 5/3 ARM for \$211,000 with escrow, example A, page 3

Additional Information About This Loan

LENDER	Ficus Bank	MORTGAGE BROKER	Friendly Mortgage Broker Inc.
NMLS ID	111111	NMLS ID	222222
LOAN OFFICER	Jimmie Gilmore	LOAN OFFICER	Stevie Vaughan
NMLS ID	487493	NMLS ID	394784
EMAIL	jgilmore@ficusbank.com	EMAIL	svaughan@frndlymtgbrkr.com
PHONE	111-222-3333	PHONE	333-444-5555

Comparisons	Use these measures to compare this loan with other loans.	
In 5 Years	\$58,539	Total you will have paid in principal, interest, mortgage insurance, and fees.
	\$0	Principal you will have paid off.
Annual Percentage Rate (APR)	5.30%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	99.01%	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations	
Appraisal	We will promptly give you a copy of any written property appraisals or valuations that you pay for, even if the loan does not close. Any appraisal we order for this loan is for our use only, even if we charge you the cost. You can choose to pay for your own appraisal of the property.
Assumption	If you sell or transfer this property to another person, we <input type="checkbox"/> will allow, under certain conditions, this person to assume this loan on the original terms. <input checked="" type="checkbox"/> will not allow this person to assume this loan on the original terms.
Homeowner's Insurance	This loan requires homeowner's insurance on the property, which you may obtain from a company of your choice that we find acceptable.
Late Payment	If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
Refinance	Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.
Servicing	We intend <input type="checkbox"/> to service your loan. You will make your payments to us. <input checked="" type="checkbox"/> to transfer servicing of your loan.

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

_____ Applicant Signature	_____ Date	_____ Applicant Signature	_____ Date
------------------------------	---------------	------------------------------	---------------

EVOLUTION OF THE INTEGRATED TILA/RESPA DISCLOSURES

Round 9 – Settlement Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, p 1

Settlement Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

SETTLEMENT INFORMATION

DATE 2/21/2012
 AGENT ABC Settlement
 FILE# 01234
 PROPERTY 456 Avenue A
 Anytown, TX 12345
 SALE PRICE \$240,000

TRANSACTION INFORMATION

BORROWER James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, TX 12345
 SELLER John Wilson
 123 Somewhere Drive
 Anytown, TX 12345
 LENDER Ficus Bank

LOAN INFORMATION

LOAN TERM 30 years
 PURPOSE Purchase
 PRODUCT 5 Year Interest Only,
 5/3 Adjustable Rate
 LOAN TYPE Conventional FHA
 VA
 LOAN ID # 1330172608
 MIC # 56789

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$216,500	NO
Interest Rate	4.375%	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as 8% in year 9 See AIR table on page 4 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$789.32	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as \$1,664 in year 9 Includes interest only and no principal until year 6 See AP table on page 4 for details
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments	Does the loan have these features?			
Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$789.32	\$1,266 min \$1,582 max	\$1,266 min \$1,664 max	\$1,266 min \$1,664 max
Mortgage Insurance	+ 164.18	+ 164.18	+ 164.18	+ —
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 699.50	+ 699.50	+ 699.50	+ 699.50
Estimated Total Monthly Payment	\$1,653.00	\$2,130 – \$2,446	\$2,130 – \$2,528	\$1,966 – \$2,364

Escrow Information for Taxes, Insurance & Assessments <i>Amount Can Increase Over Time See Details on Page 4</i>	\$842.09 a month	<input checked="" type="checkbox"/> Escrow. Your escrow payment covers the taxes, insurance & assessments listed in Section G on page 2. You must pay for other property costs separately. <input type="checkbox"/> No Escrow. You must pay all of your taxes, insurance & assessments separately from your loan payments.
--------------------------------------------------------------------------------------------------------------------------------	---------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Closing Costs		
Cash to Close	\$29,826.23	Closing Costs include \$6,409.00 in Settlement Fees. See details on page 2.

Round 9 – Settlement Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 2

Closing Cost Details

Settlement Fees	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges	\$2,850.00				
01 % of Loan Amount (Points)					
02 Broker Fee to Friendly Mortgage Broker, Inc. by Lender					\$4,330.00
03 Desk Review Fee	\$150.00				
04 Loan Origination Fee	\$1,000.00				
05 Processing Fee	\$300.00				
06 Rate Lock Fee		\$525.00			
07 Underwriting Fee	\$800.00				
08 Verification Fee	\$75.00				
B. Services Borrower Did Not Shop For	\$900.00				
01 Appraisal Fee to Local Appraisal Co.		\$305.00			
02 Credit Report Fee to Credit Co.	\$30.00				
03 Document Preparation Fee to Collateral Research Inc.	\$55.00				
04 Flood Determination Fee to Collateral Research Inc.	\$35.00				
05 Flood Monitoring Fee to Monitoring Services Inc.	\$10.00				
06 Lender's Attorney to The Firm LLP	\$425.00				
07 Tax Monitoring Fee to Monitoring Services Inc.	\$15.00				
08 Tax Status Research Fee to Collateral Research Inc.	\$25.00				
09					
10					
C. Services Borrower Did Shop For	\$2,659.00				
01 Pest Inspection Fee to Home Pest Co.	\$125.00				
02 Survey Fee to ABC Surveys Co.	\$160.00				
03 Texas Title Guaranty Fee to Texas Title Ins. Guar. Assn. by Lender	\$1.00				\$1.00
04 Title – Courier Fee to Quick Delivery Co.	\$32.00				
05 Title – Lender's Policy to Regional Title Co.	\$100.00				
06 Title – Owner's Policy to Regional Title Co.	\$1,591.00				
07 Title – Settlement Agent Fee to ABC Settlement Co.	\$425.00				
08 Title – Title Search to Regional Title Co.	\$225.00				
Settlement Fees Subtotal (A + B + C)	\$5,579.00	\$830.00			
Lender Credits					
D. TOTAL SETTLEMENT FEES (Borrower-Paid)	\$6,409.00				
Settlement Costs					
E. Taxes and Other Government Fees	\$152.00				
01 Recording Fees Deed: \$120.00 Mortgage: \$32.00	\$152.00				
02					
F. Prepays	\$2,543.48				
01 Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.	\$1,460.00				
02 Mortgage Insurance Premium (mo.)					
03 Prepaid Interest \$26.31 per day from 2/21/12 to 2/29/12	\$210.48				
04 Property Taxes (mo.)					
05 Windstorm Insurance Premium (12 mo.) to YYZ Ins. Co.	\$873.00				
G. Initial Escrow Payment at Closing	\$2,793.50				
01 HOA/Condo/Co-op per month for mo.					
02 Homeowner's Insurance \$121.67 per month for 3 mo.	\$365.01				
03 Mortgage Insurance per month for mo.					
04 Property Taxes \$505.08 per month for 3 mo.	\$1,515.24				
05 Property Tax Escrow Adjustment	\$695.00				
06 Windstorm Insurance \$72.75 per month for 3 mo.	\$218.25				
07					
08 Aggregate Adjustment					
H. Other Costs	\$1,635.31				
01 \$6,000.00 to Reliable Realty Co. / \$6,000.00 to Realty Pros LLC			\$12,000.00		
02 HOA Processing Fee to HOA Corp.	\$700.00				
03 Home Warranty to XYZ Warranty Inc.	\$260.31				
04 Inspection Fee to Inspector Home Co.				\$300.00	
05 Mobile Signing Agent to Quick Signing Co.	\$150.00				
06 Real Estate Broker Admin. Fee to Reliable Realty Co.	\$200.00				
07 Structural Inspection Fee to Home Engineering Corp.	\$325.00				
08					
Settlement Costs Subtotal (E + F + G + H)	\$7,124.29	\$0			
I. TOTAL SETTLEMENT COSTS (Borrower-Paid)	\$7,124.29				
Closing Costs Subtotal (Settlement Fees + Settlement Costs)	\$12,703.29	\$830.00	\$12,000.00	\$300.00	\$4,331.00
J. TOTAL CLOSING COSTS (Borrower-Paid)	\$13,533.29				

SETTLEMENT DISCLOSURE

PAGE 2 OF 5 • LOAN ID # 1330172608

Round 9 – Settlement Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 3

Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Estimate	Final	Did this Change?
Total Closing Costs (J)	\$9,120	\$13,533.29	YES • See Total Settlement Fees (D) and Total Settlement Costs (I)
Closing Costs Subtotal Paid Before Closing	\$0	– \$830.00	YES • You paid these Closing Costs before closing
Closing Costs Financed	\$0	– \$5,500.00	YES • You included these closing costs in your loan amount, which increased your loan amount
Down Payment/Funds from Borrower	\$29,000.00	\$29,000.00	NO
Deposit	– \$5,000.00	– \$5,000.00	NO
Cash to Borrower	\$0	\$0	NO
Seller Credits	– \$1,000	– \$1,000	NO
Other Adjustments and Credits	\$0	– \$377.06	YES • See details in Sections K and L
Cash to Close	\$32,120.00	\$29,826.23	

Summaries of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION

K. Due from Borrower at Closing		\$253,170.79
01	Sale Price of Property	\$240,000.00
02	Sale Price of Any Personal Property Included in Sale	
03	Subtotal Closing Costs Paid at Closing by Borrower	\$12,703.29
04		
05		
06		
07		
08		
Adjustments for Items Paid by Seller in Advance		
09	City/Town Taxes to	
10	County Taxes to	
11	Assessments to	
12	HOA Dues 2/21/12 to 5/31/12	\$467.50
13		
14		
15		
16		
L. Paid Already or on Behalf of Borrower at Closing		\$223,344.56
01	Deposit	\$5,000.00
02	Borrower's Loan Amount	\$216,500.00
03	Existing Loan(s) Assumed or Taken Subject to	
04		
05		
06		
07		
08	Seller Credit	\$1,000.00
09		
Other Credits		
10		
11		
12		
Adjustments for Items Unpaid by Seller		
13	City/Town Taxes 1/1/12 to 2/21/12	\$844.56
14	County Taxes to	
15	Assessments to	
16		
17		
18		

CALCULATION

Total Due from Borrower at Closing (K)	\$253,170.79
Total Paid Already or on Behalf of Borrower at Closing (L)	– \$223,344.56
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$29,826.23

SELLER'S TRANSACTION

M. Due to Seller at Closing		\$240,467.50
01	Sale Price of Property	\$240,000.00
02	Sale Price of Any Personal Property Included in Sale	
03		
04		
05		
06		
07		
08		
Adjustments for Items Paid by Seller in Advance		
09	City/Town Taxes to	
10	County Taxes to	
11	Assessments to	
12	HOA Dues 2/21/12 to 5/31/12	\$467.50
13		
14		
15		
16		
N. Due from Seller at Closing		\$93,007.43
01	Excess Deposit	
02	Subtotal Closing Costs Paid at Closing by Seller	\$12,000.00
03	Existing Loan(s) Assumed or Taken Subject to	
04	Payoff of First Mortgage Loan	\$79,162.87
05	Payoff of Second Mortgage Loan	
06		
07		
08	Seller Credit	\$1,000.00
09		
10		
11		
12		
13		
Adjustments for Items Unpaid by Seller		
14	City/Town Taxes 1/1/12 to 2/21/12	\$844.56
15	County Taxes to	
16	Assessments to	
17		
18		
19		

CALCULATION

Total Due to Seller at Closing (M)	\$240,467.50
Total Due from Seller at Closing (N)	– \$93,007.43
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$147,460.07

Round 9 – Settlement Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 4

Additional Information About This Loan

Loan Disclosures

Assumption

If you sell or transfer this property to another person, your lender

will allow, under certain conditions, this person to assume this loan on the original terms.

will not allow assumption of this loan.

Demand Feature

Your loan

has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.

does not have a demand feature.

Late Payment

If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.

have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.

do not have a negative amortization feature.

Partial Payment Policy

Your lender will

accept payments that are less than the full amount due (partial payments). Partial payments will be applied:

not accept partial payments.

If this loan is sold, your new lender may have a different policy.

Security Interest

You are granting a security interest in 456 Avenue A, Anytown, TX 12345.

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Adjustable Payment (AP) Table

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,266 – \$1,582 starting at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$1,664 starting at 108th payment

Escrow Account Information

For now, your loan

will have an escrow account (also called an “impound” or “trust” account) to pay the property costs listed in Section G on page 2 for you. Your lender may be liable for penalties and interest for failing to make a payment. Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.

Year 1 Property Costs		
Initial Escrow Payment	\$2,793.50	The payment in Section G on page 2 is a cushion for the escrow account.
Monthly Escrow Payment	\$699.50	The amount included in your total monthly payment.
Escrowed Property Costs	\$8,394.00	Estimated total amount over year 1 for the costs listed in Section G on page 2.
Non-Escrowed Property Costs	\$1,711.08	Estimated total amount over year 1 for the non-escrowed property costs listed below. You may have other property costs.
		HOA dues

will not have an escrow because you declined an account your lender does not offer escrow accounts. You must directly pay your property costs, such as property taxes and homeowner’s insurance.

Estimated Costs		
Year 1, Estimated Property Costs		Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.
Fee for No Escrow Account		

Contact your lender to ask whether your loan can have an escrow account.

In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly unless you create a new escrow account. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for property insurance that the lender buys on your behalf, which likely would be more expensive and provide fewer benefits than what you could buy on your own.

Adjustable Interest Rate (AIR) Table

Index + Margin	LIBOR + 4%
Initial Interest Rate	4.375%
Minimum/Maximum Interest Rate	5%/8%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	3%
Subsequent Changes	3%

Round 9 – Settlement Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 5

Loan Calculations

Total of Payments. The amount you will have paid after you have made all 360 payments as scheduled.	\$704,172.58
Finance Charge. The dollar amount the loan will cost you.	\$239,364.26
Amount Financed. The loan amount available after paying your upfront finance charges.	\$212,989.52
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	5.61%
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	99.01%
Approximate Cost of Funds (ACF). The approximate cost of the funds used to make this loan. This is not a direct cost to you.	1.22%

Other Disclosures

Appraisal

If you paid for a written appraisal or valuation of the property, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which your lender can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information.
- state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.



Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/learnmore.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
Name	Ficus Bank	Friendly Mortgage Broker Inc.	Reliable Realty Co.	Realty Pros	ABC Settlement
Address	4321 Lone Star Blvd. Somecity, TX 54321	1234 Armadillo Ave. Somecity, TX 54321	1776 Longhorn St. Ste 405 Anytown, TX 12345	3456 Mockingbird Ave. Anytown, TX 12345	5432 Bluebonnet Blvd. Ste 405 Somecity, TX 54321
NMLS ID	111111	222222			
Contact	Jimmie Gilmore	Stevie Vaughan	Kerry Livgren	Steve Walsh	Nancy Wilson
Loan Officer NMLS ID	487493	394784			
Email	kgilmore@ficusbank.com	svaughan@frndlymtgbrkr.com	klivgren@RRealty.com	swalsh@realtypros.com	nwilson@ABCsettlement.com
Phone	111-222-3333	333-444-5555	444-555-6666	555-666-7777	666-777-8888

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to complete this transaction because you have signed or received this form.

Applicant Signature

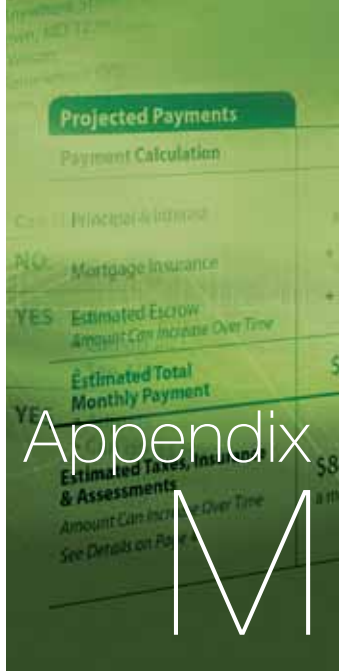
Date

Applicant Signature

Date

SETTLEMENT DISCLOSURE

PAGE 5 OF 5 • LOAN ID # 1330172608



Appendix

M

Loan Estimate and Closing Disclosures for
Round 10 – Baltimore, MD

Round 10 – Loan Estimate 5 year interest only, 5/3 ARM for \$211,000 with escrow, example A, page 1

FICUS BANK

4321 Random Boulevard • Somecity, MD 54321

Save this Loan Estimate to compare with your Closing Disclosure.

Loan Estimate

DATE ISSUED 2/3/2012
APPLICANTS James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, MD 12345
PROPERTY 456 Avenue A, Anytown, MD 12345
SALE PRICE \$240,000

LOAN TERM 30 years
PURPOSE Purchase
PRODUCT 5 Year Interest Only, 5/3 Adjustable Rate
LOAN TYPE Conventional FHA VA _____
LOAN ID # 1330172608
RATE LOCK NO YES, until 3/29/2012 at 3:00 p.m. EDT.
Before closing, your interest rate, points, and lender credits can change unless you lock the interest rate. All other estimated closing costs expire on 2/18/2012 at 3:00 p.m. EDT.

Loan Terms		Can this amount increase after closing?	
Loan Amount	\$211,000	NO	
Interest Rate	4.375%	YES	<ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as 8% in year 9 See AIR table on page 2 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$769.27	YES	<ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as \$1,622 in year 9 Includes interest only and no principal until year 6 See AP table on page 2 for details
Does the loan have these features?			
Prepayment Penalty		NO	
Balloon Payment		NO	

Projected Payments				
Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$769.27 <i>interest only</i>	\$1,233 min \$1,542 max	\$1,233 min \$1,622 max	\$1,233 min \$1,622 max
Mortgage Insurance	+ 107	+ 107	+ 107	+ —
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 533	+ 533	+ 533	+ 533
Estimated Total Monthly Payment	\$1,409	\$1,873 – \$2,182	\$1,873 – \$2,262	\$1,766 – \$2,155
Estimated Taxes, Insurance & Assessments <i>Amount Can Increase Over Time</i>	\$533 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input type="checkbox"/> Other: <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>		In escrow? YES YES

Cash to Close	
Estimated Cash to Close	\$32,120 Includes \$9,120 in Closing Costs (\$4,527 in Loan Costs + \$4,593 in Other Costs). See details on page 2.

Visit www.consumerfinance.gov/learnmore for general information and tools.

Round 10 – Loan Estimate 5 year interest only, 5/3 ARM for \$211,000 with escrow, example A, page 2

Closing Cost Details

Loan Costs

A. Origination Charges	\$2,850
% of Loan Amount (Points)	\$0
Desk Review Fee	\$150
Loan Origination Fee	\$1,000
Processing Fee	\$300
Rate Lock Fee	\$525
Underwriting Fee	\$675
Verification Fee	\$200

B. Services You Cannot Shop For	\$820
Appraisal Fee	\$305
Credit Report Fee	\$30
Flood Determination Fee	\$35
Lender's Attorney	\$400
Tax Status Research Fee	\$50

C. Services You Can Shop For	\$857
Pest Inspection Fee	\$125
Survey Fee	\$150
Title – Courier Fee	\$32
Title – Lender's Title Policy	\$100
Title – Settlement Agent Fee	\$300
Title – Title Search	\$150

D. TOTAL LOAN COSTS (A + B + C)	\$4,527
----------------------------------------	----------------

Adjustable Payment (AP) Table

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,233 – \$1,542 at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$1,622 starting at 108th payment

Other Costs

E. Taxes and Other Government Fees	\$152
Recording Fees and Other Taxes	\$152
Transfer Taxes	\$0

F. Prepays	\$1,205
Homeowner's Insurance Premium (_12_ months)	\$1,000
Mortgage Insurance Premium (_0_ months)	\$0
Prepaid Interest (\$25.64 per day for 8 days @ 4.375%)	\$205
Property Taxes (_0_ months)	\$0

G. Initial Escrow Payment at Closing	\$1,600
Flood Insurance	\$0 per month for 0 mo. \$0
HOA/Condo/Co-op	\$0 per month for 0 mo. \$0
Homeowner's Insurance	\$83.33 per month for 3 mo. \$250
Mortgage Insurance	\$0 per month for 0 mo. \$0
Property Taxes	\$450.00 per month for 3 mo. \$1,350

H. Other	\$1,636
Real Estate Broker Administration Fee	\$200
Title – Owner's Title Policy (optional)	\$1,436

I. TOTAL OTHER COSTS (E + F + G + H)	\$4,593
---------------------------------------------	----------------

J. TOTAL CLOSING COSTS	\$9,120
D + I	\$9,120
Lender Credits	– \$0

Calculating Cash to Close

Total Closing Costs (J)	\$9,120
Closing Costs Financed (Included in Loan Amount)	\$0
Down Payment/Funds from Borrower	\$29,000
Deposit	– \$5,000
Funds for Borrower	\$0
Seller Credits	– \$1,000
Other Adjustments and Credits	\$0
Estimated Cash to Close	\$32,120

Adjustable Interest Rate (AIR) Table

Index + Margin	LIBOR + 4%
Initial Interest Rate	4.375%
Minimum/Maximum Interest Rate	5%/8%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	3%
Subsequent Changes	3%

Round 10 – Loan Estimate 5 year interest only, 5/3 ARM for \$211,000 with escrow, example A, page 3

Additional Information About This Loan

LENDER	Ficus Bank	MORTGAGE BROKER	Friendly Mortgage Broker Inc.
NMLS ID	111111	NMLS ID	222222
LOAN OFFICER	Joe Smith	LOAN OFFICER	Jim Taylor
NMLS ID	487493	NMLS ID	394784
EMAIL	jsmith@ficusbank.com	EMAIL	jtaylor@frndlymtgbrkr.com
PHONE	111-222-3333	PHONE	333-444-5555

Comparisons

Use these measures to compare this loan with other loans.

In 5 Years	\$58,539	Total you will have paid in principal, interest, mortgage insurance, and loan costs.
	\$0	Principal you will have paid off.
Annual Percentage Rate (APR)	5.30%	Your costs over the loan term expressed as a rate. This is not your interest rate.
Total Interest Percentage (TIP)	99.01%	The total amount of interest that you will pay over the loan term as a percentage of your loan amount.

Other Considerations

- Appraisal** We may order an appraisal to determine the property’s value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.
- Assumption** If you sell or transfer this property to another person, we
 - will allow, under certain conditions, this person to assume this loan on the original terms.
 - will not allow this person to assume this loan on the original terms.
- Homeowner’s Insurance** This loan requires homeowner’s insurance on the property, which you may obtain from a company of your choice that we find acceptable.
- Late Payment** If your payment is more than 15 days late, we will charge a late fee of 5% of the monthly principal and interest payment.
- Loan Acceptance** You do not have to accept this loan because you have received this form or signed a loan application.
- Refinance** Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.
- Servicing** We intend
 - to service your loan. If so, you will make your payments to us.
 - to transfer servicing of your loan.

Round 10 – Closing Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 1

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information

Date Issued 3/20/2012
Closing Date 3/23/2012
Disbursement Date 3/23/2012
Agent ABC Settlement
File # 01234
Property 456 Avenue A
 Anytown, MD 12345
Sale Price \$240,000

Transaction Information

Borrower James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, MD 12345
Seller John Wilson
 123 Somewhere Drive
 Anytown, MD 12345
Lender Ficus Bank

Loan Information

Loan Term 30 years
Purpose Purchase
Product 5 Year Interest Only,
 5/3 Adjustable Rate
Loan Type Conventional FHA
 VA
Loan ID # 1330172608
MIC # 56789

Loan Terms	Can this amount increase after closing?	
Loan Amount	\$216,500	NO
Interest Rate	4.375%	YES • Adjusts every three years starting in year 6 • Can go as high as 8% in year 9 • See AIR table on page 4 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$789.32	YES • Adjusts every three years starting in year 6 • Can go as high as \$1,664 in year 9 • Includes interest only and no principal until year 6 • See AP table on page 4 for details
Does the loan have these features?		
Prepayment Penalty	NO	
Balloon Payment	NO	

Projected Payments	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Payment Calculation				
Principal & Interest	\$789.32 <i>interest only</i>	\$1,266 min \$1,582 max	\$1,266 min \$1,664 max	\$1,266 min \$1,664 max
Mortgage Insurance	+ 164.18	+ 164.18	+ 164.18	+ —
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 699.50	+ 699.50	+ 699.50	+ 699.50
Estimated Total Monthly Payment	\$1,653.00	\$2,130 – \$2,446	\$2,130 – \$2,528	\$1,966 – \$2,364

Estimated Taxes, Insurance & Assessments <i>Amount Can Increase Over Time See Details on Page 4</i>	\$842.09 a month	This estimate includes <input checked="" type="checkbox"/> Property Taxes <input checked="" type="checkbox"/> Homeowner's Insurance <input checked="" type="checkbox"/> Other: Windstorm Insurance, HOA <i>See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.</i>	In escrow? YES YES SOME
-------------------------------------------------------------------------------------------------------------------	---------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------

Cash to Close		
Cash to Close	\$29,826.23	Includes \$13,533.29 in Closing Costs (\$4,818.00 in Loan Costs + \$8,715.29 in Other Costs). See details on page 2.

Round 10 – Closing Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 2

Closing Cost Details

Loan Costs	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges	\$2,850.00				
01 % of Loan Amount (Points)					
02 Broker Fee to Friendly Mortgage Broker, Inc. by Lender					\$4,330.00
03 Desk Review Fee	\$150.00				
04 Loan Origination Fee	\$1,000.00				
05 Processing Fee	\$300.00				
06 Rate Lock Fee		\$525.00			
07 Underwriting Fee	\$800.00				
08 Verification Fee	\$75.00				
B. Services Borrower Did Not Shop For	\$900.00				
01 Appraisal Fee to Local Appraisal Co.		\$305.00			
02 Credit Report Fee to Credit Co.	\$30.00				
03 Document Preparation Fee to Collateral Research Inc.	\$55.00				
04 Flood Determination Fee to Collateral Research Inc.	\$35.00				
05 Flood Monitoring Fee to Monitoring Services Inc.	\$10.00				
06 Lender's Attorney to The Firm LLP	\$425.00				
07 Tax Monitoring Fee to Monitoring Services Inc.	\$15.00				
08 Tax Status Research Fee to Collateral Research Inc.	\$25.00				
09					
10					
C. Services Borrower Did Shop For	\$1,068.00				
01 Pest Inspection Fee to Home Pest Co.	\$125.00				
02 Survey Fee to ABC Surveys Co.	\$160.00				
03 Maryland Title Guaranty Fee to Maryland Title Ins. Guar. Assn. by Lender	\$1.00				\$1.00
04 Title – Courier Fee to Quick Delivery Co.	\$32.00				
05 Title – Lender's Policy to Regional Title Co.	\$100.00				
06 Title – Settlement Agent Fee to ABC Settlement Co.	\$425.00				
07 Title – Title Search to Regional Title Co.	\$225.00				
08					
Loan Costs Subtotal (A + B + C)	\$3,988.00	\$830.00			
D. TOTAL LOAN COSTS (Borrower-Paid)	\$4,818.00				
Other Costs					
E. Taxes and Other Government Fees	\$152.00				
01 Recording Fees Deed: \$120.00 Mortgage: \$32.00	\$152.00				
02					
F. Prepays	\$2,543.48				
01 Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.	\$1,460.00				
02 Mortgage Insurance Premium (mo.)					
03 Prepaid Interest \$26.31 per day from 2/21/12 to 2/29/12	\$210.48				
04 Property Taxes (mo.)					
05 Windstorm Insurance Premium (12 mo.) to YYZ Ins. Co.	\$873.00				
G. Initial Escrow Payment at Closing	\$2,793.50				
01 HOA/Condo/Co-op per month for mo.					
02 Homeowner's Insurance \$121.67 per month for 3 mo.	\$365.01				
03 Mortgage Insurance per month for mo.					
04 Property Taxes \$505.08 per month for 3 mo.	\$1,515.24				
05 Property Tax Escrow Adjustment	\$695.00				
06 Windstorm Insurance \$72.75 per month for 3 mo.	\$218.25				
07					
08 Aggregate Adjustment					
H. Other	\$3,226.31				
01 \$6,000.00 to Reliable Realty Co. / \$6,000.00 to Realty Pros LLC			\$12,000.00		
02 HOA Processing Fee to HOA Corp.	\$700.00				
03 Home Warranty to XYZ Warranty Inc.	\$260.31				
04 Inspection Fee to Inspector Home Co.				\$300.00	
05 Mobile Signing Agent to Quick Signing Co.	\$150.00				
06 Real Estate Broker Admin. Fee to Reliable Realty Co.	\$200.00				
07 Structural Inspection Fee to Home Engineering Corp.	\$325.00				
08 Title – Owner's Policy (optional) to Regional Title Co.	\$1,591.00				
Other Costs Subtotal (E + F + G + H)	\$8,715.29	\$0			
I. TOTAL OTHER COSTS (Borrower-Paid)	\$8,715.29				
Closing Costs Subtotal (D + I)	\$12,703.29	\$830.00	\$12,000.00	\$300.00	\$4,331.00
Lender Credits					
J. TOTAL CLOSING COSTS (Borrower-Paid)	\$13,533.29				

Round 10 – Closing Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 3

Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Estimate	Final	Did this change?
Total Closing Costs (J)	\$9,120	\$13,533.29	YES • See Total Loan Costs (D) and Total Other Costs (I)
Closing Costs Subtotal Paid Before Closing	\$0	– \$830.00	YES • You paid these Closing Costs before closing
Closing Costs Financed	\$0	– \$5,500.00	YES • You included these closing costs in your loan amount, which increased your loan amount
Down Payment/Funds from Borrower	\$29,000	\$29,000.00	NO
Deposit	– \$5,000	– \$5,000.00	NO
Funds for Borrower	\$0	\$0	NO
Seller Credits	– \$1,000	– \$1,000.00	NO
Adjustments and Other Credits	\$0	– \$377.06	YES • See details in Sections K and L
Cash to Close	\$32,120	\$29,826.23	

Summaries of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION

K. Due from Borrower at Closing		\$253,170.79
01	Sale Price of Property	\$240,000.00
02	Sale Price of Any Personal Property Included in Sale	
03	Closing Costs Subtotal (J)	\$12,703.29
04		
Adjustments		
05		
06		
07		
Adjustments for Items Paid by Seller in Advance		
08	City/Town Taxes to	
09	County Taxes to	
10	Assessments to	
11	HOA Dues 3/23/12 to 6/30/12	\$467.50
12		
13		
14		
15		
L. Paid Already by or on Behalf of Borrower at Closing		\$223,344.56
01	Deposit	\$5,000.00
02	Borrower's Loan Amount	\$216,500.00
03	Existing Loan(s) Assumed or Taken Subject to	
04		
05	Seller Credit	\$1,000.00
Other Credits		
06		
07		
Adjustments		
08		
09		
10		
11		
Adjustments for Items Unpaid by Seller		
12	City/Town Taxes 1/1/12 to 3/23/12	\$844.56
13	County Taxes to	
14	Assessments to	
15		
16		
17		

CALCULATION

Total Due from Borrower at Closing (K)	\$253,170.79
Total Paid Already by or on Behalf of Borrower at Closing (L)	– \$223,344.56
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower	\$29,826.23

SELLER'S TRANSACTION

M. Due to Seller at Closing		\$240,467.50
01	Sale Price of Property	\$240,000.00
02	Sale Price of Any Personal Property Included in Sale	
03		
04		
05		
06		
07		
08		
Adjustments for Items Paid by Seller in Advance		
09	City/Town Taxes to	
10	County Taxes to	
11	Assessments to	
12	HOA Dues 3/23/12 to 6/30/12	\$467.50
13		
14		
15		
16		
N. Due from Seller at Closing		\$93,007.43
01	Excess Deposit	
02	Closing Costs Subtotal (J)	\$12,000.00
03	Existing Loan(s) Assumed or Taken Subject to	
04	Payoff of First Mortgage Loan	\$79,162.87
05	Payoff of Second Mortgage Loan	
06		
07		
08	Seller Credit	\$1,000.00
09		
10		
11		
12		
13		
Adjustments for Items Unpaid by Seller		
14	City/Town Taxes 1/1/12 to 3/23/12	\$844.56
15	County Taxes to	
16	Assessments to	
17		
18		
19		

CALCULATION

Total Due to Seller at Closing (M)	\$240,467.50
Total Due from Seller at Closing (N)	– \$93,007.43
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller	\$147,460.07

Round 10 – Closing Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 4

Additional Information About This Loan

Loan Disclosures

Assumption

If you sell or transfer this property to another person, your lender

will allow, under certain conditions, this person to assume this loan on the original terms.

will not allow assumption of this loan.

Demand Feature

Your loan

has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.

does not have a demand feature.

Late Payment

If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.

have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.

do not have a negative amortization feature.

Partial Payment

Your lender will

accept payments that are less than the full amount due (partial payments). Partial payments will be applied:

not accept partial payments.

If this loan is sold, your new lender may have a different policy.

Security Interest

You are granting a security interest in 456 Avenue A, Anytown, MD 12345.

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Adjustable Payment (AP) Table

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,266 – \$1,582 starting at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$1,664 starting at 108th payment

Escrow Account

For now, your loan

will have an escrow account (also called an “impound” or “trust” account) to pay the property costs listed in Section G on page 2 for you. Your lender may be liable for penalties and interest for failing to make a payment. Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.

Year 1 Property Costs		
Initial Escrow Payment	\$2,793.50	The payment in Section G on page 2 is a cushion for the escrow account.
Monthly Escrow Payment	\$699.50	The amount included in your total monthly payment.
Escrowed Property Costs	\$8,394.00	Estimated total amount over year 1 for the costs listed in Section G on page 2.
Non-Escrowed Property Costs	\$1,711.08	Estimated total amount over year 1 for the non-escrowed property costs listed below. You may have other property costs.
		HOA dues

will not have an escrow because you declined an account your lender does not offer escrow accounts. You must directly pay your property costs, such as property taxes and homeowner’s insurance.

Estimated Costs		
Year 1, Estimated Property Costs		Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.
Fee for No Escrow Account		

Contact your lender to ask whether your loan can have an escrow account.

In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly unless you create a new escrow account. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for property insurance that the lender buys on your behalf, which likely would be more expensive and provide fewer benefits than what you could buy on your own.

Adjustable Interest Rate (AIR) Table

Index + Margin	LIBOR + 4%
Initial Interest Rate	4.375%
Minimum/Maximum Interest Rate	5%/8%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	3%
Subsequent Changes	3%

Round 10 – Closing Disclosure design 1, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example A, page 5

Loan Calculations

Total of Payments. The amount you will have paid after you have made all 360 payments as scheduled.	\$704,172.58
Finance Charge. The dollar amount the loan will cost you.	\$239,364.26
Amount Financed. The loan amount available after paying your upfront finance charges.	\$212,989.52
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	5.61%
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	99.01%
Approximate Cost of Funds (ACF). The approximate cost of the funds used to make this loan. This is not a direct cost to you.	1.22%

Other Disclosures

Appraisal

If you paid for a written appraisal or valuation of the property, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which your lender can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information.
- state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.



Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/learnmore.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
Name	Ficus Bank	Friendly Mortgage Broker Inc.	Reliable Realty Co.	Realty Pros	ABC Settlement
Address	4321 Raven Blvd. Somecity, MD 54321	1234 Terrapin Dr. Somecity, MD 54321	1776 Chesapeake St. Ste 405 Anytown, MD 12345	3456 Oriole Ave. Anytown, MD 12345	5432 Free State Blvd. Ste 405 Somecity, MD 54321
NMLS/ License ID	111111	222222			
Contact	Joe Smith	Jim Taylor	Kelly Green	Steve Walsh	Nancy Wilson
Contact NMLS/ License ID	487493	394784			
Email	jsmith@ ficusbank.com	jtaylor@ frndlymtgbrkr.com	kgreen@ RRealty.com	swalsh@ realtypros.com	nwilson@ ABCsettlement.com
Phone	111-222-3333	333-444-5555	444-555-6666	555-666-7777	666-777-8888

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature

Date

Applicant Signature

Date

CLOSING DISCLOSURE

PAGE 5 OF 5 • LOAN ID # 1330172608

Round 10 – Closing Disclosure design 2, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example B, page 1

Closing Disclosure

This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate.

Closing Information

Date Issued 3/20/2012
Closing Date 3/23/2012
Disbursement Date 3/23/2012
Agent ABC Settlement
File # 01234
Property 456 Avenue A
 Anytown, MD 12345
Sale Price \$240,000

Transaction Information

Borrower James White and Jane Johnson
 123 Anywhere Street, Apt 678
 Anytown, MD 12345
Seller John Wilson
 123 Somewhere Drive
 Anytown, MD 12345
Lender Ficus Bank

Loan Information

Loan Term 30 years
Purpose Purchase
Product 5 Year Interest Only,
 5/3 Adjustable Rate
Loan Type Conventional FHA
 VA
Loan ID # 1330172608
MIC # 56789

Loan Terms

Can this amount increase after closing?

Loan Amount	\$216,500	NO
Interest Rate	4.375%	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as 8% in year 9 See AIR table on page 4 for details
Monthly Principal & Interest <i>See Projected Payments Below for Your Total Monthly Payment</i>	\$789.32	YES <ul style="list-style-type: none"> Adjusts every three years starting in year 6 Can go as high as \$1,664 in year 9 Includes interest only and no principal until year 6 See AP table on page 4 for details
Does the loan have these features?		
Prepayment Penalty		NO
Balloon Payment		NO

Projected Payments

Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	\$789.32 <i>interest only</i>	\$1,266 min \$1,582 max	\$1,266 min \$1,664 max	\$1,266 min \$1,664 max
Mortgage Insurance	+ 164.18	+ 164.18	+ 164.18	+ —
Estimated Escrow <i>Amount Can Increase Over Time</i>	+ 699.50	+ 699.50	+ 699.50	+ 699.50
Estimated Total Monthly Payment	\$1,653.00	\$2,130 – \$2,446	\$2,130 – \$2,528	\$1,966 – \$2,364

Estimated Taxes, Insurance & Assessments

*Amount Can Increase Over Time
 See Details on Page 4*

\$842.09
a month

This estimate includes

- Property Taxes
- Homeowner's Insurance
- Other: Windstorm Insurance, HOA

See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.

In escrow?

YES
YES
SOME

Cash to Close

Cash to Close \$29,826.23 Includes \$13,533.29 in Closing Costs (\$4,818.00 in Loan Costs + \$8,715.29 in Other Costs). See details on page 2.

Round 10 – Closing Disclosure design 2, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example B, page 2

Closing Cost Details

Loan Costs	Borrower-Paid		Seller-Paid		Paid by Others
	At Closing	Before Closing	At Closing	Before Closing	
A. Origination Charges	\$2,850.00				
01 % of Loan Amount (Points)					
02 Broker Fee to Friendly Mortgage Broker, Inc. by Lender					\$4,330.00
03 Desk Review Fee	\$150.00				
04 Loan Origination Fee	\$1,000.00				
05 Processing Fee	\$300.00				
06 Rate Lock Fee		\$525.00			
07 Underwriting Fee	\$800.00				
08 Verification Fee	\$75.00				
B. Services Borrower Did Not Shop For	\$900.00				
01 Appraisal Fee to Local Appraisal Co.		\$305.00			
02 Credit Report Fee to Credit Co.	\$30.00				
03 Document Preparation Fee to Collateral Research Inc.	\$55.00				
04 Flood Determination Fee to Collateral Research Inc.	\$35.00				
05 Flood Monitoring Fee to Monitoring Services Inc.	\$10.00				
06 Lender's Attorney to The Firm LLP	\$425.00				
07 Tax Monitoring Fee to Monitoring Services Inc.	\$15.00				
08 Tax Status Research Fee to Collateral Research Inc.	\$25.00				
09					
10					
C. Services Borrower Did Shop For	\$1,068.00				
01 Pest Inspection Fee to Home Pest Co.	\$125.00				
02 Survey Fee to ABC Surveys Co.	\$160.00				
03 Maryland Title Guaranty Fee to Maryland Title Ins. Guar. Assn. by Lender	\$1.00				\$1.00
04 Title – Courier Fee to Quick Delivery Co.	\$32.00				
05 Title – Lender's Policy to Regional Title Co.	\$100.00				
06 Title – Settlement Agent Fee to ABC Settlement Co.	\$425.00				
07 Title – Title Search to Regional Title Co.	\$225.00				
08					
D. TOTAL LOAN COSTS (Borrower-Paid)	\$4,818.00				
Loan Costs Subtotal (A + B + C)	\$3,988.00	\$830.00			
Other Costs					
E. Taxes and Other Government Fees	\$152.00				
01 Recording Fees Deed: \$120.00 Mortgage: \$32.00	\$152.00				
02					
F. Prepays	\$2,543.48				
01 Homeowner's Insurance Premium (12 mo.) to XYZ Ins. Co.	\$1,460.00				
02 Mortgage Insurance Premium (mo.)					
03 Prepaid Interest \$26.31 per day from 3/23/12 to 3/31/12	\$210.48				
04 Property Taxes (mo.)					
05 Windstorm Insurance Premium (12 mo.) to YYZ Ins. Co.	\$873.00				
G. Initial Escrow Payment at Closing	\$2,793.50				
01 HOA/Condo/Co-op per month for mo.					
02 Homeowner's Insurance \$121.67 per month for 3 mo.	\$365.01				
03 Mortgage Insurance per month for mo.					
04 Property Taxes \$505.08 per month for 3 mo.	\$1,515.24				
05 Property Tax Escrow Adjustment	\$695.00				
06 Windstorm Insurance \$72.75 per month for 3 mo.	\$218.25				
07					
08 Aggregate Adjustment					
H. Other	\$3,226.31				
01 \$6,000.00 to Reliable Realty Co. / \$6,000.00 to Realty Pros LLC			\$12,000.00		
02 HOA Processing Fee to HOA Corp.	\$700.00				
03 Home Warranty to XYZ Warranty Inc.	\$260.31				
04 Inspection Fee to Inspector Home Co.				\$300.00	
05 Mobile Signing Agent to Quick Signing Co.	\$150.00				
06 Real Estate Broker Admin. Fee to Reliable Realty Co.	\$200.00				
07 Structural Inspection Fee to Home Engineering Corp.	\$325.00				
08 Title – Owner's Policy (optional) to Regional Title Co.	\$1,591.00				
I. TOTAL OTHER COSTS (Borrower-Paid)	\$8,715.29				
Other Costs Subtotal (E + F + G + H)	\$8,715.29	\$0			
J. TOTAL CLOSING COSTS (Borrower-Paid)	\$13,533.29				
Closing Costs Subtotal (D + I)	\$12,703.29	\$830.00	\$12,000.00	\$300.00	\$4,331.00
Lender Credits					

Round 10 – Closing Disclosure design 2, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example B, page 3

Calculating Cash to Close

Use this table to see what has changed from your Loan Estimate.

	Estimate	Final	Did this change?
Total Closing Costs (J)	\$9,120	\$13,533.29	YES • See Total Loan Costs (D) and Total Other Costs (I)
Closing Costs Subtotal Paid Before Closing	\$0	– \$830.00	YES • You paid these Closing Costs before closing
Closing Costs Financed	\$0	– \$5,500.00	YES • You included these closing costs in your loan amount, which increased your loan amount
Down Payment/Funds from Borrower	\$29,000	\$29,000.00	NO
Deposit	– \$5,000	– \$5,000.00	NO
Funds for Borrower	\$0	\$0	NO
Seller Credits	– \$1,000	– \$1,000.00	NO
Adjustments and Other Credits	\$0	– \$377.06	YES • See details in Sections K and L
Cash to Close	\$32,120	\$29,826.23	

Summaries of Transactions

Use this table to see a summary of your transaction.

BORROWER'S TRANSACTION

K. Due from Borrower at Closing		\$253,170.79
01	Sale Price of Property	\$240,000.00
02	Sale Price of Any Personal Property Included in Sale	
03	Closing Costs Subtotal (J)	\$12,703.29
04		
Adjustments		
05		
06		
07		
Adjustments for Items Paid by Seller in Advance		
08	City/Town Taxes to	
09	County Taxes to	
10	Assessments to	
11	HOA Dues 3/23/12 to 6/30/12	\$467.50
12		
13		
14		
15		
L. Paid Already by or on Behalf of Borrower at Closing		\$223,344.56
01	Deposit	\$5,000.00
02	Borrower's Loan Amount	\$216,500.00
03	Existing Loan(s) Assumed or Taken Subject to	
04		
05	Seller Credit	\$1,000.00
Other Credits		
06		
07		
Adjustments		
08		
09		
10		
11		
Adjustments for Items Unpaid by Seller		
12	City/Town Taxes 1/1/12 to 3/23/12	\$844.56
13	County Taxes to	
14	Assessments to	
15		
16		
17		
CALCULATION		
Total Due from Borrower at Closing (K)		\$253,170.79
Total Paid Already by or on Behalf of Borrower at Closing (L)		– \$223,344.56
Cash to Close <input checked="" type="checkbox"/> From <input type="checkbox"/> To Borrower		\$29,826.23

SELLER'S TRANSACTION

M. Due to Seller at Closing		\$240,467.50
01	Sale Price of Property	\$240,000.00
02	Sale Price of Any Personal Property Included in Sale	
03		
04		
05		
06		
07		
08		
Adjustments for Items Paid by Seller in Advance		
09	City/Town Taxes to	
10	County Taxes to	
11	Assessments to	
12	HOA Dues 3/23/12 to 6/30/12	\$467.50
13		
14		
15		
16		
N. Due from Seller at Closing		\$93,007.43
01	Excess Deposit	
02	Closing Costs Subtotal (J)	\$12,000.00
03	Existing Loan(s) Assumed or Taken Subject to	
04	Payoff of First Mortgage Loan	\$79,162.87
05	Payoff of Second Mortgage Loan	
06		
07		
08	Seller Credit	\$1,000.00
09		
10		
11		
12		
13		
Adjustments for Items Unpaid by Seller		
14	City/Town Taxes 1/1/12 to 3/23/12	\$844.56
15	County Taxes to	
16	Assessments to	
17		
18		
19		
CALCULATION		
Total Due to Seller at Closing (M)		\$240,467.50
Total Due from Seller at Closing (N)		– \$93,007.43
Cash <input type="checkbox"/> From <input checked="" type="checkbox"/> To Seller		\$147,460.07

Round 10 – Closing Disclosure design 2, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example B, page 4

Additional Information About This Loan

Loan Disclosures

Assumption

If you sell or transfer this property to another person, your lender

- will allow, under certain conditions, this person to assume this loan on the original terms.
- will not allow assumption of this loan.

Demand Feature

Your loan

- has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.
- does not have a demand feature.

Late Payment

If your payment is more than 15 days late, your lender will charge a late fee of 5% of the monthly principal and interest payment.

Negative Amortization (Increase in Loan Amount)

Under your loan terms, you

- are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- have the option of making monthly payments that do not pay all of the interest due that month. If you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.
- do not have a negative amortization feature.

Partial Payment

Your lender will

- accept payments that are less than the full amount due (partial payments). Partial payments will be applied:

- not accept partial payments.

If this loan is sold, your new lender may have a different policy.

Security Interest

You are granting a security interest in 456 Avenue A, Anytown, MD 12345.

You may lose this property if you do not make your payments or satisfy other obligations for this loan.

Adjustable Payment (AP) Table

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	\$1,266 – \$1,582 starting at 61st payment
Subsequent Changes	Every three years
Maximum Payment	\$1,664 starting at 108th payment

Escrow Account

For now, your loan

- will have an escrow account (also called an “impound” or “trust” account) to pay the property costs listed in Section G on page 2 for you. Your lender may be liable for penalties and interest for failing to make a payment. Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.

Year 1 Property Costs		
Initial Escrow Payment	\$2,793.50	The payment in Section G on page 2 is a cushion for the escrow account.
Monthly Escrow Payment	\$699.50	The amount included in your total monthly payment.
Escrowed Property Costs	\$8,394.00	Estimated total amount over year 1 for the costs listed in Section G on page 2.
Non-Escrowed Property Costs	\$1,711.08	Estimated total amount over year 1 for the non-escrowed property costs listed below. You may have other property costs.
		HOA dues

- will not have an escrow because you declined an account your lender does not offer escrow accounts. You must directly pay your property costs, such as property taxes and homeowner’s insurance.

Estimated Costs

Year 1, Estimated Property Costs		Without an escrow account, you would pay these costs directly, possibly in one or two large payments a year.
Fee for No Escrow Account		

Contact your lender to ask whether your loan can have an escrow account.

In the future,

Your property costs may change and, as a result, your escrow payment may change. You may be able to cancel your escrow account, but if you do, you must pay your property costs directly unless you create a new escrow account. If you fail to pay your property taxes, your state or local government may (1) impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may

- add the amounts to your loan balance,
- add an escrow account to your loan, or
- require you to pay for property insurance that the lender buys on your behalf, which likely would be more expensive and provide fewer benefits than what you could buy on your own.

Adjustable Interest Rate (AIR) Table

Index + Margin	LIBOR + 4%
Initial Interest Rate	4.375%
Minimum/Maximum Interest Rate	5%/8%
Change Frequency	
First Change	Beginning of 61st month
Subsequent Changes	Every 36th month after first change
Limits on Interest Rate Changes	
First Change	3%
Subsequent Changes	3%

Round 10 – Closing Disclosure design 2, 5 year interest only, 5/3 ARM for \$216,500 with partial escrow, example B, page 5

Loan Calculations

Total of Payments. The amount you will have paid after you have made all 360 payments as scheduled.	\$704,172.58
Finance Charge. The dollar amount the loan will cost you.	\$239,364.26
Amount Financed. The loan amount available after paying your upfront finance charges.	\$212,989.52
Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your interest rate.	5.61%
Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a percentage of your loan amount.	99.01%
Approximate Cost of Funds (ACF). The approximate cost of the funds used to make this loan. This is not a direct cost to you.	1.22%

Other Disclosures

Appraisal

If you paid for a written appraisal or valuation of the property, your lender is required to give you a copy at no additional cost at least 3 days before closing. If you have not yet received it, please contact your lender at the information listed below.

Contract Details

See your note and security instrument for information about

- what happens if you fail to make your payments,
- other ways you can default on the loan,
- situations in which your lender can require early repayment of the loan, and
- the rules for making payments before they are due.

Liability after Foreclosure

If your lender forecloses on this property and the foreclosure does not cover the amount of unpaid balance on this loan,

- state law may protect you from liability for the unpaid balance. If you refinance or take on any additional debt on this property, you may lose this protection and be liable for debt remaining after the foreclosure. You may want to consult a lawyer for more information.
- state law does not protect you from liability for the unpaid balance.

Refinance

Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan.

Tax Deductions

If you borrow more than this property is worth, the interest on the loan amount above this property's fair market value is not deductible from your federal income taxes. You should consult a tax advisor for more information.



Questions? If you have questions about the loan terms and costs on this form, contact your lender. To get more information or make a complaint, contact the Consumer Financial Protection Bureau at www.consumerfinance.gov/learnmore.

Contact Information

	Lender	Mortgage Broker	Real Estate Broker (B)	Real Estate Broker (S)	Settlement Agent
Name	Ficus Bank	Friendly Mortgage Broker Inc.	Reliable Realty Co.	Realty Pros	ABC Settlement
Address	4321 Raven Blvd. Somecity, MD 54321	1234 Terrapin Dr. Somecity, MD 54321	1776 Chesapeake St. Ste 405 Anytown, MD 12345	3456 Oriole Ave. Anytown, MD 12345	5432 Free State Blvd. Ste 405 Somecity, MD 54321
NMLS/ License ID	111111	222222			
Contact	Joe Smith	Jim Taylor	Kelly Green	Steve Walsh	Nancy Wilson
Contact NMLS/ License ID	487493	394784			
Email	jsmith@ ficusbank.com	jtaylor@ frndlymtgbrkr.com	kgreen@ RRealty.com	swalsh@ realtypros.com	nwilson@ ABCSettlement.com
Phone	111-222-3333	333-444-5555	444-555-6666	555-666-7777	666-777-8888

Confirm Receipt

By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form.

Applicant Signature

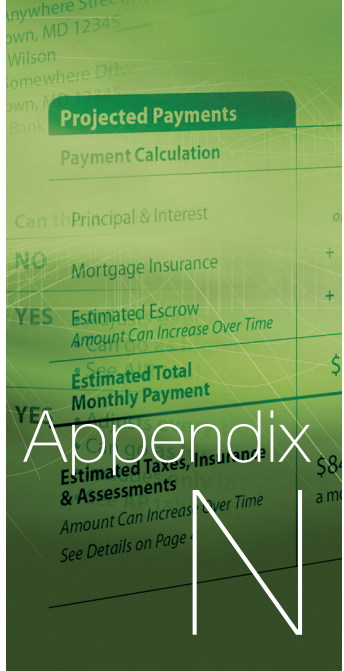
Date

Applicant Signature

Date

CLOSING DISCLOSURE

PAGE 5 OF 5 • LOAN ID # 1330172608



Appendix

References

Bloom B. S. (1956). *Taxonomy of educational objectives, handbook I: The cognitive domain*. New York: David McKay Co., Inc.

Board of Governors of the Federal Reserve System. *Regulation Z proposal*. 74 FR 43232 (August 26, 2009).

Board of Governors of the Federal Reserve System and U.S. Department of Housing and Urban Development, *Joint report to the Congress concerning reform to the Truth in Lending Act and the Real Estate Settlement Procedures Act*, July 1998. Available at <http://www.federalreserve.gov/boarddocs/rptcongress/tila.pdf>.

Bosley, D.S. (2011). *Results of usability testing for explanations of direct deposit advance product*. (unnamed major bank). Technical Report.

Buie, E., and Murray, D. (Eds.) (2012). *Usability in government systems: User experience design for citizens and public servants*. Boston, MA: Morgan Kaufmann Press.

Communications Design Center at Carnegie-Mellon University. (1997). Schriver, K.A. *Dynamics in document design: Creating texts for readers*. New York: John Wiley & Sons.

Communication Research Institute of Australia, available at www.communication.org.au

Cooper, A. (2004). *The inmates are running the asylum: Why high-tech products are driving us crazy and how to restore the sanity*. Indianapolis, IN: Sams-Pearson Education.

Document Design Center at American Institutes for Research. (1979-1997). See Felker, D., F. Pickering, V. Charrow, V. M. Holland, and Redish, J. (1981). *Guidelines for document designers*. Washington, DC: American Institutes for Research.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), Pub. L. 11-203, 124 Stat.1376 (2010).

Dumas, J. S., and Redish, J. C. (1993). *A practical guide to usability testing*. Norwood, NJ: Ablex.

Dumas, J. (February 2007). The great leap forward: the birth of the usability profession (1988-1993). *Journal of Usability Studies*, 2(2), 56.

Garrison, L., Hastak, M., Hogarth, J., Kleimann, S., and Levy, A. (2012). Designing evidence-based disclosures: A case study of financial privacy notices. *Journal of Consumer Affairs* (forthcoming).

Glaser, B. & Strauss, A. (1967). *Discovery of grounded theory*. Chicago: Aldine.

ICF Macro International. *Design and testing of effective Truth in Lending disclosures: Findings from experimental study*. Available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20081218a8.pdf>

The International Organization for Standardization. (1998). *Guidance on usability*. Available at http://www.iso.org/iso/catalogue_detail.htm?csnumber=16883

Kimble, J. (2012). *Writing for dollars, writing to please: The case for plain language in business, government, and law*. Durham, NC: Carolina Academic Press.

Lacko, J. and Pappalardo, J. (2007). *Improving consumer mortgage disclosures: An empirical assessment of current and prototype disclosure forms*. Federal Trade Commission, Bureau of Economics Staff Report, Washington, DC. Available at ftc.gov/opa/2007/06/mortgage.shtm

Lewis, C. H. (1982). *Using the 'thinking aloud' method in cognitive interface design*. (Technical report). IBM. RC-9265.

McGuire, W. J. (1976). Some internal psychological factors influencing consumer choice. *Journal of Consumer Research*, 2 (March), 302–19.

National Center for Education Statistics. *The national assessment of adult literacy, 2003*. Available at http://nces.ed.gov/naal/kf_demographics.asp

The National Foundation for Credit Counseling and Harris Interactive Inc. (2009). *The 2009 consumer financial literacy survey*. Available at <http://www.nfcc.org/newsroom/FinancialLiteracy/files/2009FinancialLiteracySurveyFINAL.pdf>

Nielsen, J. (2007). *Authentic behavior in user testing*. Available at <http://www.useit.com/alertbox/20050214.html>

Norman, D. (1988). *The design of everyday things*. New York: Doubleday.

Norman, D. A. and Draper, S. W. (1986). *User-centered design: New Perspectives on human-computer interaction*. Hillsdale, NJ: Lawrence Erlbaum Associates.

Real Estate Settlement Procedures Act of 1974, 12 U.S.C. 2601 et seq.

Redish, J. (2010). Technical communication and usability: Intertwined strands and mutual influences commentary. *IEEE Transactions on Professional Communication*, 53(3),191-201.

Schrifer, K.A. (1997). *Dynamics in document design: Creating texts for readers*. New York: John Wiley & Sons.

Song, H. and Schwartz, N. (2008). If's it's hard to read, it's hard to do. *Psychological Science*, 9(10), 986-988.

Spillers, F. (2007). *Usability testing central*. Available at http://www.usabilitytestingcentral.com/2007/02/the_history_of_.html

Virzi, R. (1992). Refining the test phase of usability evaluation: How many subjects is enough? *Human Factors*, 34, 457–486.

Wiklund, M.E. (Ed.) (1994). *Usability in practice: How companies develop user-friendly products*. Boston: AP Professional.