SUMMARY OF FINDINGS:

Design and Testing of Mortgage Servicing Disclosures

August 2012

SUBMITTED TO:
Consumer Financial Protection Bureau

SUBMITTED BY:
ICF International
9300 Lee Highway
Fairfax, VA 22031

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Executive Summary

Background

In July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, approved July 21, 2010) (the "Dodd-Frank Act" or the "Act") in the wake of the greatest financial crisis since the Great Depression. The mortgage meltdown was the epicenter of this crisis. The serious and widespread deficiencies in the mortgage market damaged American homeowners, financial institutions, and the wider economy.

In its investigation into the causes of the financial crisis, the U.S. House of Representatives found that mortgage servicing in particular has been marked by pervasive and profound consumer protection problems.[1] Consequently, the Dodd-Frank Act sets forth a number of new protections for consumers in the servicing of their mortgage loans. Among these new protections are new disclosures that will help provide consumers with comprehensive and comprehensible information so they can better manage their obligations and avoid unnecessary problems:

- Section 1418 of the Dodd-Frank Act amended the Truth in Lending Act (TILA) by adding a new requirement that a creditor or servicer provide a notice regarding the initial interest rate reset or adjustment of a hybrid adjustable rate mortgage (ARM) at the end of the introductory period either (a) between 6 and 7 months prior to such reset, or (b) at consummation of the mortgage if the first reset occurs during the first 6 months after consummation. Additional discretionary authority in the Dodd-Frank Act permits the extension of the Act's hybrid ARM notice requirements to ARMs that are not hybrid ARMs.[2] The Consumer Financial Protection Bureau (CFPB) intends to propose that the notice be required of all ARMs.

- Section 1420 of the Act amended TILA by adding a new requirement that a creditor, assignee, or servicer of any residential mortgage loan—a closed-end credit transaction secured by a dwelling—provide a periodic statement to the borrower for each billing cycle. It also required the Federal Reserve Board (the Board) to develop standard model form(s) for the required disclosure, taking into account that the statements may be transmitted in hard copy or electronically.[3]

- Section 1463 of the Act amended the Real Estate Settlement Procedures Act of 1974 (RESPA) by adding a new requirement that a servicer for a federally related mortgage must send, via first class mail, two notices to the consumer before charging the consumer for force-placed insurance.

[1] *See* H. Rep. No. 111-94, at 54-56 (May 4, 2009), *available at* http://www.gpo.gov/fdsys/pkg/CRPT-111hrpt94/pdf/CRPT-111hrpt94.pdf.
[2] *See* Dodd-Frank Act, sec. 1418(a).
[3] The Board's authority to develop standard model forms and its responsibility of implementing TILA transferred to CFPB on July 21, 2011. *See* Dodd-Frank Act, secs. 1061(b)(1), 1401(b).

These new disclosure requirements will take effect automatically on January 21, 2013, as written in the statute, unless final rules are issued first. The Bureau plans on issuing final rules on or before that date. The statute authorizes the CFPB to adopt implementing regulations.

In November 2011, CFPB contracted with ICF International (ICF) to assist it with the development and testing of these new disclosures. The work for this project consisted of two phases. First, ICF worked closely with CFPB to develop a set of model forms that (1) met the disclosure requirements as outlined in the Dodd-Frank Act and (2) provided the information in a manner that was understandable and useful to consumers. This was an ongoing, iterative process that took into account the current design of similar forms, as well as best practices in consumer communications. Second, these new draft forms were tested through three rounds of in-depth cognitive interviews with consumers. The forms were revised between rounds to address any usability or comprehension issues that became apparent.

The findings from this work informed CFPB's proposed regulations for mortgage servicing disclosures, which are expected to be published for public comment during the summer of 2012. The revised forms that were developed and refined through the testing were used as a basis for the model forms included with that proposal.

Development of Model Disclosure Forms

For this study, ICF designed forms to both satisfy the requirements of the Dodd-Frank Act, and to present information to consumers in a clear and understandable way. The development of these forms was based on in-depth discussions between ICF and CFPB staff, as well as a review of sample documents currently used by creditors and mortgage servicers. ICF developed three types of forms:

- **Periodic mortgage statements** that servicers would provide to consumers each billing cycle to provide important information about their loan;
- **Adjustable-rate mortgage (ARM) rate adjustment notices**, which would notify consumers six months before their interest rates were scheduled to adjust for the first time; and
- **Force-placed insurance disclosures**, which would warn consumers that the servicer did not have evidence of hazard insurance coverage, and that if they did not have insurance coverage, the servicer had the right to purchase force-placed insurance and charge the consumer for the cost.

Periodic Mortgage Statements

The periodic mortgage statements tested were designed to be given to consumers each billing cycle, providing important information about their loans. The statements were printed on a single, double-sided legal-sized page. Among other pieces of information, the front of the statements included:

- A summary of the mortgage terms (*e.g.*, interest rate and principal obligation);
- The amount of and due date for the next payment;

- A breakdown of current and past payments by principal, interest, escrow and fees;
- A description of recent transaction activity including the itemization of fees and charges;
- An Important Messages box; and
- A payment coupon that consumers could return with a payment by mail.

The information on the front of the statements was organized by grouping related concepts and information into boxes, each of which had a short but descriptive heading (*e.g.*, "Account Information," or "Current Payment Due").

The back of the statements included contact information for the Department of Housing and Urban Development (HUD), the state housing agency, and three state- or federally-approved counseling programs in the consumer's area. On all but one of the statements used in testing, this contact information was referenced in the Important Messages box on the front of the statement, which directed readers to the back of the statement. The back of the statements also contained other servicing-related information that was included to make the statements more realistic.[4]

Adjustable Rate Mortgage (ARM) Rate Adjustment Notices

The ARM rate adjustment notices tested were designed to be sent to consumers with ARMs six to seven months before their interest rate was due to adjust for the first time. Among other pieces of information, the notices that were tested included the following:

- An explanation of how the consumer's new rate and payment would be determined and when they would take effect;
- A good-faith estimate of the amount of the new monthly payment;
- The date of the initial interest-rate adjustment;
- A list of actions consumers could take if they sought alternatives to the upcoming monthly payment changes;
- The amount of any prepayment penalty; and
- Contact information for federal and state housing agencies and housing counselors.

The structure of the ARM rate adjustment notices developed for this project was based on a notice proposed by the Board in August 2009 on the same topic.

Force-Placed Insurance Notices

The force-placed insurance notices tested were designed as one-page letters from a servicer to a consumer. The notices explained to consumers that the mortgage company did not have evidence of hazard insurance coverage. The notices also explained that if the consumer did not have

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[4] Other than the information about mortgage counseling, none of the information on the back of the statements was tested as part of the project.

insurance coverage, the mortgage company had the right to purchase force-placed insurance and charge the consumer for the cost. The notices also included a good-faith estimate of what force-placed insurance would cost and an explanation of the circumstances under which consumers would be charged for force-placed insurance.

Per the Dodd-Frank Act, servicers must send two of these notices before charging a consumer for force-placed insurance—one at least 45 days before charging and another at least 15 days before charging.

Methodology for Consumer Testing

ICF conducted three rounds of in-depth interviews to test how effectively the disclosure forms communicated information to consumers. A total of 31 interviews were conducted in February through April 2012 in Towson, Maryland; Memphis, Tennessee; and Los Angeles, California. Participants were recruited by telephone using a screener that was developed collaboratively by ICF and CFPB staff. In order to qualify, participants were required to own their current residence and hold a mortgage. The screener also ensured balanced representation in terms of gender, age, education, and race. Recruiters also made efforts to recruit a significant number of participants who had trouble making mortgage payments in the last two years or who currently or previously had an ARM.

Each interview lasted approximately 60 minutes. At the beginning of the interviews, the participants were told that they had a mortgage with a company called "Springside Mortgage." The model forms were designed to show they came from Springside Mortgage.[5] After a brief series of introductory questions about their current mortgage loan and prior experience with mortgages, participants were then given a mortgage statement and asked to review it just as they would had they received it in the mail. During this portion of the interview, the interviewer asked participants to "think aloud" as they reviewed the form, and to comment on any information that stood out to them or that they found confusing or unclear. After participants reviewed the statement, they were asked a series of questions to measure their understanding of its content. A similar process was then followed for the ARM rate adjustment notice and the force-placed insurance notices. At the end of each interview, the interviewer consulted with CFPB and ICF observers to identify any additional follow-up questions that might prove useful in clarifying the participant's understanding of the forms.

Findings from Testing of Periodic Mortgage Statements

Participants' Previous Experience with Mortgage Statements

- At the beginning of each interview, participants were asked whether they received periodic statements for their own mortgage loans and the extent to which they reviewed them. Across all rounds of testing, nearly all participants said they received periodic mortgage statements. Most said they did not review the statements closely but that they

[5] ICF did not explain the differences between creditors and mortgage servicers to participants. While the differences are important from a regulatory perspective, they are not important from the perspective of testing the comprehensibility and usability of the model forms.

did skim them for specific pieces of information, such as the amount due; the due date; confirmation that the previous payment was received; how their payments were applied (*e.g.*, to principal, interest, or escrow); whether any fees were assessed; and their remaining loan balance.

Understanding of General Account Information

- Across all rounds of testing, nearly all participants were able to correctly identify key pieces of information in the sample statements, including the amount and due date of the current payment, any fees included in that payment amount, the amount they owed on the loan, their current interest rate, and whether the payment for the previous month had been received.

- Although all participants in the first round of testing were able to locate their remaining loan balance on the statement, not all participants had a clear understanding of what this amount included. In fact, several participants in that round incorrectly believed that the "Outstanding Loan Balance" included both principal and interest. To clarify the relationship between their loan balance and the portion of their payment that is applied to principal, the statement in subsequent rounds used the term "Outstanding Principal."

- In breakouts of monthly payments, the statements used in the first two rounds labeled *"Escrow (for Taxes and Insurance)."* In the third round of testing the parenthetical explanation was removed, so that the statement simply referred to "Escrow." Only two of six participants on the first day understood the meaning of this term. On the second day of testing the word "escrow" was replaced with "impound," to reflect the fact that "escrow" might have a different meaning in California, where the testing was taking place. However, this did not improve understanding; again, only two consumers understood.

Understanding of Current Payment Due

- Across all rounds of testing, all participants identified when their current payment was due, the amount of the current payment, and the fact that it included one or more fees.

Understanding of Past Payments

- Across all rounds of testing, nearly all participants understood that their payment for the previous month had been received.

- Participants in the first two rounds of testing were asked to identify the amount of interest they had paid in the previous year. All of these participants were able to do so.

- The statements tested in the first two rounds included a row labeled "Partial Payment (Unapplied)." This row was intended to show any partial payments that had not yet been applied to the mortgage account. In the first two rounds of testing, however, only about half of participants understood that funds in this row had not been applied to their accounts.

- In an attempt to improve participant understanding of partial payments, the statements used in the third round included an explanation that read, *"Any partial payments that you make are not applied to your mortgage, but instead are held in a separate suspense account. If you pay the balance of a partial payment, the funds will then be applied to your mortgage."* Initially, this did not appear to have a significant effect on participant understanding, as only about half the participants understood what the row labeled "Partial Payment (Unapplied)" meant. However, after being directed to read the text about partial payments in the Important Messages box, all participants understood that they would have to make additional payments in order to have their partial payment applied to their loan account.

Understanding of Prepayment Penalties

- Participants in the first two rounds of testing were asked if they would be charged a penalty for paying off their loan in advance. Most participants saw the row labeled "Prepayment Penalty" and understood they would be charged that amount if they paid off their loan early. However, six participants in the first round of testing incorrectly assumed that they would not have to pay a prepayment penalty if they refinanced their loan, and four incorrectly thought they would not have to pay a penalty if they sold their house.

Contact Information for the Mortgage Company

- Across all rounds of testing, all participants were able to identify the contact information for the mortgage company.

Information on Mortgage Counseling and Assistance

- The statements used in the first two rounds of testing included a reference indicating that information for mortgage counseling agencies could be found on the back of the statement. In both of these rounds, all participants saw the reference on the front of the statement. When asked whether the statement contained any contact information for mortgage counselors, more than half of participants turned to the back of the statement to locate the information.

- In order to test whether consumers would notice the contact information for counselors even if this reference was not included on the front of the statement, it was removed from one of the two versions used in the third round. Seven of the 11 participants in the third round turned to the back of this statement when asked to find contact information for mortgage counselors, which was a comparable proportion to the first two rounds of testing.

Delinquency Statement

- For the third round of testing, one of the statements depicted a scenario in which the consumer was two months delinquent on the mortgage. The statement included a Delinquency Notice box that informed consumers they were late on their mortgage payments, that failure to bring their loan current could result in fees or the loss of their homes, and the precise number of days that their account was delinquent. The Delinquency Notice box also included a recent history of their account that showed whether payments for recent months had been made on time.

- When shown this statement, all participants understood that they were behind on their mortgage and that if they did not bring their account up-to-date, the mortgage company would have the right to take their home. However, even though the Delinquency Notice box said *"As of March 20, you are 49 days delinquent on your mortgage loan,"* only about half of the participants correctly identified exactly how long overdue the mortgage company considered them to be.

Payment Option Statement

- In the third round of testing, CFPB also tested a statement for a "payment option" mortgage, which allowed the consumer to choose between three payments each month: "full," "interest-only," and "minimum." Along with a breakdown of how each payment would be applied, it provided a short description of the impact that making that payment would have on the consumer's principal balance.

- All participants understood after reviewing this form that if they made the full payment their loan balance would decrease, and that if they made the interest-only payment their loan balance would remain the same. All but one understood that if they made the minimum payment, the balance on their loan would increase.

Findings from Testing of Adjustable Rate Mortgage (ARM) Rate Adjustment Notices

Change in Rate and Payment

- Across all rounds of testing, all participants understood from the notices that their interest rate and payment were going to increase and when these changes would occur. However, several of the participants in the first round suggested that the notices could make it clearer why the rate and payment were changing.

- In response to this feedback, the following text was added to the first paragraph of the notice: *"Under the terms of your Adjustable Rate Mortgage (ARM), you had a three-year period during which your interest rate stayed the same. That period ends on August 20, 2012, so on that date your interest rate may change."* This addition seemed to improve consumer understanding; all participants in the second round understood that under the terms of their mortgage, the interest rate was fixed for the first three years and could change after that time.

- In the third round of testing, the notice that was tested showed a scenario in which the payments had been interest-only for the first three years of the loan and would become amortizing when the first rate adjustment went into effect. However, only about half of participants understood that their payments would be changing from interest-only to amortizing. Participants generally understood the concept of allocation of payments but were confused by a table in the notice that broke out principal and interest for the current payment, but combined the two for the new amount. As a result, this table was revised so that separate amounts for principal and interest were shown for all payments. [6]

Calculation of New Interest Rate

- Across all rounds of testing, most participants understood that the new rate and payment shown on the notice were estimates that could change before the first new payment would be due.

- A few participants in the first round did not understand that their rate could change annually. To address this issue, in subsequent rounds of testing the sentence, *"Your interest rate may change annually for the rest of your loan term,"* was added to the first paragraph. All but one of the participants in subsequent rounds of testing understood that their interest rate could continue to change each year.

- In the first round, only three participants seemed to have any understanding of what an "index" and "margin" were, and how these would be used to calculate the interest rate. There was a wide range of misconceptions, including several participants who incorrectly believed the mortgage company could subjectively determine the new interest rate.

- To address this problem, the notice was revised before the second round to provide more description about how the rate would be determined. While it was still unclear to what extent participants understood what "index" and "margin" meant, after rereading the revised notices, most participants in the second and third rounds understood that the mortgage company could not arbitrarily determine the new interest rate.

Mortgage Counseling and Assistance

- Across all rounds of testing, most participants were able to locate contact information listed in the notices for federal and state government agencies and federally- or state-approved mortgage counseling providers.

Possible Alternatives for Consumers

- Participants in the first and second rounds of testing were asked about their understanding of a list of alternatives consumers could pursue. All participants saw this list of alternatives on the notice.

- Only about half of the participants understood what was meant by the phrase, *"transfer ownership of the property directly to [mortgage company] in order to avoid foreclosure."* Furthermore, many of these participants were unsure about why that would be a desirable alternative. Several participants were not sure how this option was different from foreclosure. A few understood that this option could be more beneficial to them in contrast to foreclosure.

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[6] This revision was made after the third round of testing, and therefore was not tested with consumers.

Interest Rate Carryover

- In order to test participant understanding of interest rate carryover,[7] the notice in the third round described a scenario in which a limit on annual interest rate increases applied. The notice provided the following description: *"If not for this rate limit, your estimated rate on September 29 would be 1.00% higher. This additional amount may be applied to your interest rate when it adjusts again next year."*

- Only two of the 11 participants in the third round understood the concept of interest rate carryover, even after being asked to reread this text. For several participants, in fact, these sentences created confusion about what was going to happen to their interest rate in the current year. As a result, this explanation was rephrased in the notice.

Findings from Testing of Force-Placed Insurance Notices

Understanding of the Mortgage Company's Right to Obtain and Renew Force-Placed Insurance

- All participants understood from the notices that the mortgage company did not have proof of insurance and that if the consumer did not have insurance, the mortgage company could purchase insurance on the consumer's behalf.

- Three participants in the second round were shown a notice that explained that the mortgage company had already purchased insurance on their behalf. All three of these participants understood that the insurance had already been purchased by the mortgage company.

- Three participants in the third round were shown a notice that included text in the subject line and first paragraph indicating that it was the "second and final notice." All of these participants understood that this meant the mortgage company had already sent them a previous notice with the same information, and that they would not be sent another reminder.

- Eight participants in the third round were shown a notice that explained that their property had been covered by force-placed insurance over the past year, and that the mortgage company would renew the force-placed policy if the consumer did not provide proof of independent coverage. All eight participants understood that for the past year their homes had been covered by insurance purchased by the mortgage company on their behalf and that they were responsible for paying the premiums for that coverage. They also understood that if they did not get their own coverage, the mortgage company would renew their policy for the following year.

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[7] An ARM with an interest rate carryover feature means that the creditor has the right to carry over to a future period interest rate increases that it is entitled to during the current period but has to forego due to other terms in the loan, such as interest rate caps.

Potential Disadvantages of Force-Placed Insurance

- Across all rounds of testing, all participants understood that force-placed insurance would likely be more expensive than what they could purchase independently. Almost all participants also understood that it could provide less coverage.

Participants' Reactions to the Force-Placed Insurance Notices

- Across all rounds of testing, all participants said that upon receipt of this letter, they would immediately contact their insurance provider. They also said that if they did not have insurance, they would immediately purchase it and send proof of that coverage to their mortgage company to avoid paying for insurance purchased on their behalf.

Participants' Understanding of the Circumstances under Which They Would Be Charged

- While all participants said they would act immediately in response to receiving the notices they were shown, several participants in the first round did not understand exactly <u>when</u> the mortgage company could purchase insurance on their behalf. At least three of these participants assumed there would be a "grace period" after they received the letter during which they would not be responsible for the force-placed insurance premium.

- To clarify that consumer would be responsible for the premium during <u>any</u> lapse in coverage, a sentence was added to the notice that read *"If we purchase insurance on your behalf, you will have to pay us for any period during which you did not have insurance."* All but one of the participants in the second round understood that there would be no grace period.

- Participants in the second and third rounds of testing understood that they could not be charged by the mortgage company for any period during which they had their own coverage, even if the mortgage company had taken out force-placed insurance during that time.[8]

[8] Participants in the first round of testing were not asked this question.

Chapter I: Background

In July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. 111-203, approved July 21, 2010) (the "Dodd-Frank Act" or the "Act") in the wake of the greatest financial crisis since the Great Depression. The mortgage meltdown was the epicenter of this crisis. The serious and widespread deficiencies in the mortgage market damaged American homeowners, financial institutions, and the wider economy.

In its investigation into the causes of the financial crisis, the U.S. House of Representatives found that mortgage servicing in particular has been marked by pervasive and profound consumer protection problems.[9] Consequently, the Dodd-Frank Act sets forth a number of new protections for consumers in the servicing of their mortgage loans. Among these new protections are new disclosures that will help provide consumers with comprehensive and comprehensible information so they can better manage their obligations and avoid unnecessary problems:

- Section 1418 of the Dodd-Frank Act amended the Truth in Lending Act (TILA) by adding a new requirement that a creditor or servicer provide a notice regarding the initial interest rate reset or adjustment of a hybrid adjustable rate mortgage (ARM) at the end of the introductory period either (a) between 6 and 7 months prior to such reset, or (b) at consummation of the mortgage if the first reset occurs during the first 6 months after consummation. Additional discretionary authority in the Dodd-Frank Act permits the extension of the Act's hybrid ARM notice requirements to ARMs that are not hybrid ARMs. The Consumer Financial Protection Bureau (CFPB) intends to propose that the notice be required of all ARMs.

- Section 1420 of the Act amended TILA by adding a new requirement that a creditor, assignee, or servicer of any residential mortgage loan – a closed-end credit transaction secured by a dwelling – providing a periodic statement to the borrower for each billing cycle. It also required the Federal Reserve Board (the Board) to develop standard model form(s) for the required disclosure, taking into account that the statements may be transmitted in hard copy or electronically.

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In November 2011, CFPB contracted with ICF International (ICF) to assist it with the development and testing of these new disclosures. The work for this project consisted of two phases. First, ICF worked closely with CFPB to develop a set of model forms that (1) met the disclosure requirements as outlined in the Dodd-Frank Act and (2) provided the information in a

[9] *See supra* note 1.

manner that was understandable and useful to consumers. This was an ongoing, iterative process that took into account the current design of similar forms, as well as best practices in consumer communications. Second, these new draft forms were tested through three rounds of in-depth cognitive interviews with consumers. The forms were revised between rounds to address any usability or comprehension issues that became apparent.

The findings from this work informed CFPB's proposed regulations for mortgage servicing disclosures, which are expected to be published for public comment during the summer of 2012. The revised forms were used as a basis for the model forms included with that proposal.

Chapter II: Development of Model Disclosure Forms

During the development phase of the project, ICF designed three types of draft forms related to mortgage servicing: periodic mortgage loan statements, ARM rate adjustment notices, and force-placed insurance notices. These forms were designed to satisfy the requirements of the Dodd-Frank Act, and to present information to consumers in a clear and understandable way. The development of these forms was based on in-depth discussions between ICF and CFPB staff, as well as a review of sample documents in use by creditors and mortgage servicers.

Description of Forms

Periodic Mortgage Statements

The periodic mortgage statements tested were designed to be given to consumers each billing cycle, providing important information about their loans. The statements were printed on a single, double-sided legal-sized page. Among other pieces of information, the front of the statements included:

- A summary of the mortgage terms (*e.g.*, interest rate and principal obligation);
- The amount of and due date for the next payment;
- A breakdown of current and past payments by principal, interest, escrow and fees;
- A description of recent transaction activity including the itemization of fees and charges;
- An Important Messages box; and
- A payment coupon that consumers could return with a payment by mail.

The information on the front of the statements was organized by grouping related concepts and information together into boxes, each of which had a short but descriptive heading (*e.g.*, "Account Information," or "Current Payment Due").

The back of the statements included contact information for the Department of Housing and Urban Development (HUD), the state housing agency, and three state- or federally-approved counseling programs in the consumer's area. On all but one of the statements used in testing, this contact information was referenced in the Important Messages box, which directed readers to the back of the statement. The back of the statements also contained other servicing-related information that was included to make the statement more realistic.[10]

[10] Other than the information about mortgage counseling, none of the information on the back of the statement was tested as part of the project.

Adjustable Rate Mortgage (ARM) Rate Adjustment Notices

The ARM rate adjustment notices tested were designed to be sent to consumers with ARMs six to seven months before their interest rate was due to adjust. Among other pieces of information, the notices that were tested included the following:

- An explanation of how the consumer's new rate and payment would be determined and when they would take effect;
- A good-faith estimate of the amount of the new monthly payment;
- The date of the initial interest rate adjustment;
- A list of actions consumers could take if they sought alternatives to the upcoming monthly payment changes;
- The amount of any prepayment penalty; and
- Contact information for federal and state housing agencies and housing counselors.

The structure of the ARM rate adjustment notices developed for this project was based on a notice proposed by the Board in August 2009 on the same topic.

Force-Placed Insurance Notices

The force-placed insurance notices tested were designed as one-page letters from a servicer to a consumer. The notices explained to consumers that the mortgage company did not have evidence of hazard insurance coverage. The notices also explained that if the consumer did not have insurance coverage, the mortgage company had the right to purchase force-placed insurance and charge the consumer for the cost. The notices also included a good-faith estimate of what force-placed insurance would cost, and an explanation of the circumstances under which consumers would be charged for force-placed insurance.

Per the Dodd-Frank Act, servicers must send two of these notices before charging a consumer for force-placed insurance—one at least 45 days before charging and another at least 15 days before charging.

General Design Principles

ICF's information designers use a set of general design principles when developing financial disclosures for consumers. Some principles that were especially relevant to the development of forms for this project include the following:

- **Use plain language.** Whenever possible, jargon and technical language should be avoided in favor of words that are more easily understood by consumers. Simple language is particularly important for financial disclosure forms because the consumers who most urgently need this information are often those with low literacy levels. When technical terms must be used, they should be explained for readers unfamiliar with them. For example, the ARM rate adjustment notice explained that payment forbearance *"temporarily gives you more time to pay your monthly payment,"* and that the consumer's interest rate would be calculated by adding to the index *"a certain number of percentage points, called the 'margin.'"*

- **Prioritize information and structure forms so that the most important information for consumers is easiest for them to find.** It should not be assumed that all consumers read all forms completely and carefully. Many may instead skim for a few key pieces of information. If consumers cannot find the information they want quickly, they may become frustrated and stop reading. Therefore, it is important to identify the most important information on the form before design work begins. This information should be located prominently to increase the likelihood that even consumers who skim the form quickly will find and understand it. For this reason, the periodic mortgage statements that were tested included a box prominently displayed at the top of the page that presented the account number, payment due date, and amount due, which are three pieces of information important to most consumers.

- **Group related concepts and figures.** Financial disclosure forms may attempt to communicate many disparate facts in a relatively small space. Consumers are likely to more easily absorb and make sense of the information if it is grouped in a logical way. On the periodic mortgage statements, this was accomplished by grouping information into boxes. The boxes each contained related information, and were presented in a logical order.

- **Use headings and titles to make documents more navigable.** When large amounts of text are included, plain language headings should be used to delineate sections on different topics. Tables, rows, and columns should have short, easy-to-read titles that accurately describe the information provided. This allows consumers to find specific information quickly and efficiently, and decreases the likelihood that they will become distracted by unrelated text.

- **Build off prior research when possible.** While each type of form is different, findings from cognitive testing of one form can often be incorporated into the design of another. The applicability of format/content in a new context should always be confirmed through cognitive testing, but prior research often provides a useful starting point. For example, as noted above, the basic framework of the ARM rate adjustment notice was based on a form originally designed and tested by ICF for the Board. While significant revisions were made to the form to reflect the parameters of this new CFPB project, having a starting point that had already been tested with consumers was helpful.

Chapter III: Methodology for Consumer Testing

Once ICF had drafted model forms, the next phase of the project was to test how effectively they communicated information to consumers. ICF conducted three rounds of in-depth cognitive interviews with 31 consumers in three U.S. cities. The dates and locations of the three rounds are shown in Table 1 below.

Table 1. Date, Location, and Number of Participants for Consumer Testing

Round	Date	Location	Number of Participants
1	Feb. 1-2, 2012	Towson, MD	10
2	Feb. 29-Mar. 1, 2012	Memphis, TN	10
3	Apr. 3-4, 2012	Los Angeles, CA	11

Interview participants were recruited by telephone using a screener that was developed collaboratively by ICF and CFPB staff. In order to qualify, participants were required to own their current residence and hold a mortgage. The screener also ensured balanced representation of participants in terms of gender, age, education, and race. Recruiters also made efforts to recruit a significant number of participants who had trouble making mortgage payments in the last two years or who currently or previously had an ARM. The recruitment screener used in the third round of testing is included as Appendix A; Appendix B provides detailed information about the demographic characteristics of participants in each round.

Each interview lasted approximately 60 minutes and was based on an interview guide developed collaboratively by ICF and CFPB staff. Each interview began with a brief series of introductory questions about the participant's current mortgage loan and prior experience with mortgages. Participants were then given a periodic mortgage statement and asked to review it just as they would had they had received it in the mail. During this portion of the interview, the interviewer asked participants to "think aloud" as they reviewed the form, and to comment on any information that stood out to them or that seemed confusing or unclear.

After participants reviewed the statement, they were asked a series of questions to measure their understanding of its content. A similar process was then followed for the ARM rate adjustment notice and the force-placed insurance notices. At the end of each interview, the interviewer consulted with CFPB and ICF observers to identify any useful follow-up questions.

The following three chapters of this report describe the findings from these interviews, as well as changes that were made to the forms in response to those findings. Each chapter describes results from one type of document across three rounds of testing, so that changes to model forms can be most easily followed over time.

Chapter IV: Testing of Periodic Mortgage Statements

This chapter of the report addresses findings and implications from the three rounds of testing related to periodic mortgage statements. The statements used in each round of testing are included in Appendix C.[11]

Round 1: Towson, Maryland (February 1-2, 2012)

The statement tested in the first round presented a scenario in which the consumer was up-to-date on mortgage payments. The consumer had been charged a late fee because the last payment was received two days after the end of the grace period.

Key Interview Findings

Participants' Experience with Periodic Statements

- At the beginning of each interview, participants were asked whether they received periodic statements for their own mortgage loans and the extent to which they reviewed them. All interview participants said they received periodic mortgage statements either via mail, electronically, or both. Most participants said they did not review their statements closely, but that they did review them for specific information, such as the amount due; the interest rate; confirmation that their previous payment had been received; how their payments were applied (*e.g.*, to principal, interest, or escrow); and whether any fees were assessed.

Understanding of General Account Information

- All participants correctly identified their current interest rate. All also understood that their rate could change. Most participants understood from the statement that the rate could begin changing as early as October 2012, although two believed their rate would change in November.
- All participants were able to identify their remaining loan balance; however, it was not clear that all of them understood what this figure meant. For example, several participants incorrectly believed that the remaining loan balance shown on the statement included both the principal and the interest that would be paid over the life of the loan.[12]

Understanding of Current Payment Due

- All participants correctly identified the current amount due and understood that it included the regular mortgage payment and a late fee. Participants understood that they had been charged a late fee based either on information in the Current Payment Due box

[11] The periodic statements presented to interview participants in all three rounds were printed on legal-sized paper (8.5"x14"). Those included in Appendix C were reformatted to fit on a standard letter-sized page (8.5"x11").
[12] It should be noted that some of this confusion might have been due to the fact that participants were reviewing a statement for a hypothetical loan. If participants had been looking at a statement for their own mortgage, this misunderstanding might have been mitigated by the fact that they knew the original amount of the loan.

or the explanation in the Transaction Activity box. A few participants, however, initially expressed some confusion over how the fee shown in the Current Payment Due box was connected with the fee in the Transaction Activity box.

- Participants were asked whether they felt it was necessary for the Current Payment Due box to break the payment down into portions for principal, interest, and escrow. Most participants said this information was important to them because they wanted to see how their payment would be applied. However, two participants said it was not necessary because the Past Payments Breakdown box provided similar information.

Understanding of Past Payments

- All participants understood from the statement that their payment for the previous month had been received.
- Participants were then asked whether their payment for the previous month had decreased their loan balance. About half understood that because the Past Payments Breakdown box showed that a portion of their last payment was applied to principal, their loan balance would have decreased by that amount. The other half of participants also understood that some of their payment had been applied to principal, but did not seem to understand the impact this would have on their loan balance.
- All participants correctly identified the total amount of interest that they had paid in 2012.
- The Past Payments Breakdown box of the statement included a row called "Partial Payment (Unapplied)." When asked what this meant, only two participants understood that any amount shown in this row would not have been applied to principal, interest, or escrow. Three participants incorrectly believed that if an amount were shown in the Partial Payment row, it would indicate that an overpayment had been made by the consumer. Others said they did not know what this row meant, or incorrectly thought that payments in this row would be applied to principal, interest, or escrow.

Understanding of Prepayment Penalties

- All participants understood that a prepayment penalty would apply if they paid off their mortgage early. However, six participants incorrectly believed they would not be charged the prepayment penalty if they refinanced, and one was unsure. Four participants did not think they would be charged the prepayment penalty if they sold their houses; four others were unsure.

Contact Information for the Mortgage Company

- All participants saw the contact information for the mortgage company that was provided on the form.

Information on Mortgage Counseling and Assistance

- When asked whether the statement provided any information about what to do if they were having trouble paying their mortgage, all participants mentioned the information provided in the Important Messages box about mortgage counseling and assistance. When asked how they could reach organizations that offer this counseling and assistance, seven participants immediately turned to the back and found the contact information. The other three participants did not initially turn to the back on their own, but when instructed to do so were easily able to locate the information.

Requests for Additional Information

- When asked whether additional information should be included on the statement, participants suggested showing the initial loan amount (two participants), the payoff amount (one participant), and more detailed information about the escrow account (one participant).

Subsequent Design Decisions

Following the first round of testing, several revisions were made to the statement. This section describes revisions that were most significant in terms of content, formatting, or tone.

- In the statement used in the first round, both the summary box in the top-right of the statement and the Amount Due box on the payment coupon referenced the payment that a consumer would have to make if his or her payment was late. For example, the summary box read, *"If payment is received after 4/15/12, pay $1,989.71."* In the statement for the second round, these references were revised so that they identified the amount of the late fee, rather than the total payment <u>including</u> the late fee. For example, the revised summary box read, *"If payment is received after 4/15/12, $160 late fee will be charged."* This change was for the sake of simplicity and directness, and because the amount of the late fee was considered an important piece of information for consumers.
- To clarify the relationship between their loan balance and the portion of their payment that is applied to principal, the revised statement changed the term "Remaining Loan Balance" to "Outstanding Principal."
- To clarify which transactions appear in the Transaction Activity box, a date range was added to the heading for that box.
- The heading of the Current Payment Due box was changed to "Explanation of Amount Due," because it was more descriptive.

Round 2: Memphis, Tennessee (February 29 – March 1, 2012)

The periodic statement tested in Round 2 was revised based on findings from the first round of testing (as described above). It was also changed to reflect a slightly more complex loan scenario in which the consumer sent only a partial payment of $900 the previous month, and that payment had not been applied to his or her loan account. The fact that the payment was only partial was shown in the Transaction Activity box (which described the payment transaction as "Partial Payment Received"), and in the Past Payments Breakdown box, in which all $900 was shown in the Paid Last Month column in a row labeled "Partial Payment (Unapplied)." This change allowed the interviewer to test participant understanding of unapplied funds more directly than in the first round.

Key Interview Findings

Participants' Experience with Periodic Statements

- At the beginning of each interview, participants were asked whether they received periodic statements for their own mortgage loan, and the extent to which they reviewed them. All but one of the interview participants said they did receive monthly mortgage statements, either through the mail, electronically, or both. Most participants said they did not review their statements closely, but that they did skim them for specific pieces of information, such as the amount due; payment due date; confirmation that the previous payment was received; how their payments were applied (*e.g.*, to principal, interest, or escrow); and whether any fees were assessed.

Understanding of General Account Information

- All participants were able to identify the remaining loan balance.

- All participants correctly identified their current interest rate. All but one of the participants also understood that this rate might change, and that it might do so as early as October 2012. The remaining participant saw the text "Until October 2012" next to the interest rate, but did not seem to understand that the rate could change at that time.

Understanding of Current Payment Due

- All participants correctly identified the current amount due and understood that it included the regular mortgage payment, a late fee, and a property inspection fee.

Understanding of Past Payments

- All participants correctly identified the total amount of interest that they had paid in 2012.

- All participants understood from the statement that their payment for the previous month had been received by the mortgage company. Most of the participants were told in advance to assume that they had made a partial payment the previous month. Three participants were not informed of this in advance; all three understood from the statement that the mortgage company had only received a partial payment.

- Participants were asked to explain what it meant that their previous payment was recorded in a row labeled "Partial Payments (Unapplied)." Six of the participants understood that this meant their payment had not been applied to principal, interest, or escrow, and that the funds were being held by the mortgage company. This was an improvement compared to the first round of testing.

- Among those who did not understand what "unapplied" funds were, one participant knew that the payment had not been used to pay off any principal, but was unsure of what had been done with the money. The three remaining participants indicated that they did not know what the mortgage company had done with the payment: one thought it "went to principal," one assumed it had been used to pay down interest, and the third had "no idea" what happened to those funds.

Understanding of Prepayment Penalties

- All but three of the participants saw that the mortgage had a prepayment penalty. These participants also understood that they would have to pay this penalty if they paid off the mortgage early.

Information on Mortgage Counseling and Assistance

- When asked if the statement included information about organizations that could provide advice about mortgages, all participants mentioned the information about counseling and assistance located in the Important Messages box.
- When asked how they could reach organizations that offered counseling or assistance, six participants immediately turned to the back of the statement and found the contact information for the counseling organizations. The other participants did not initially turn to the back of the statement on their own, but when instructed to do so, they were easily able to locate the information. These findings were comparable to those from the first round of testing.
- One participant commented that he was unsure whether the services provided by the counselors on the notice would be free, and that the notice did not provide that information.

Requests for Additional Information

- When asked whether additional information should be included on the statement, half of the participants said that no additional information was necessary. Among the remaining participants, suggestions included adding: an explanation of what happened to the partial payment (three participants), an explanation of what was meant by "overdue payment" (one participant), and a list of possible alternatives for consumers having trouble paying their mortgages (one participant).

Subsequent Design Decisions

Because results from the second round of testing showed that participant comprehension of the statement was generally high, only a few changes were made to the model statements for the next round.

- Many consumers did not understand what was meant by "Partial Payment (Unapplied)," so the following explanation was added to the Important Messages box: *"Any partial payments that you make are not applied to your mortgage, but instead are held in a separate suspense account. If you pay the balance of a partial payment, the funds will then be applied to your mortgage."*
- In the breakdowns of current and past payments on the statements for the first two rounds of testing, the category for escrow read "Escrow (for Taxes and Insurance)." To test

whether consumers would understand the concept of escrow even without these parenthetical descriptions, the statements tested in the third round simply said “Escrow.”

- Statements used in the first two rounds included a reference in the Important Messages box to information about mortgage counseling on the back of the statement. To test whether consumers would notice the contact information even without this reference, it was removed from one of the two versions tested in the third round.

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

For the third round of testing, CFPB staff decided to test statements for two new scenarios: one in which a consumer was delinquent on their mortgage (referred to in this report as the “Delinquency Statement”), and another in which the consumer had a “payment option” mortgage that allowed him or her to choose between different payment options each month. In order to test these scenarios, two different statements were developed and tested. The overall layout and content of the statements was largely the same as what had been tested in the previous rounds. However, there were some significant differences:

- The Delinquency Statement included a Delinquency Notice box that informed consumers they were late on their mortgage payments, that failure to bring their loan current could result in fees or the loss of their homes, and the precise number of days that their account was delinquent. The Delinquency Notice box also included a recent history of their account that showed whether payments for recent months had been made on time.

- The Payment Option statement showed a breakdown for three payment options, labeled “full,” “interest-only,” and “minimum.” Along with the breakdown of each payment, it provided a short description of the impact making that payment would have on the principal balance.

For all participants, the delinquency statement was tested first, followed by the payment option statement.[13]

Key Interview Findings (Delinquency Statement)

Participants’ Experience with Periodic Statements

- At the beginning of each interview, participants were asked whether they received statements for their own mortgage loan, and the extent to which they reviewed them. All but one of the interview participants said they received monthly mortgage statements either through the mail, electronically, or both. The remaining participant was not sure if she received periodic statements. Most participants said they did not review their statements closely. However, a few said they did skim them for specific information, such as the interest rate, payment amount, payment due date, and remaining loan balance.

[13] One additional difference between the notices was that the payment option notice included a reference in the Important Messages box to information on the back about mortgage counseling or assistance, while the delinquency notice did not include this reference.

Understanding of Current Payment Due

- All participants correctly identified when their current payment was due, and the amount due. All understood that the amount due included the regular mortgage payment, a late fee, and a property inspection fee.
- On Day 1 of testing, participants were asked what the term "escrow" meant. Only two of six participants understood that "escrow" referred to a separate account that the mortgage company uses to pay taxes and insurance. Two participants said they were confused by the use of the term because in their minds "escrow" referred to an account set up to hold funds until a homebuyer had closed on his or her house. One of these two said that he was more familiar with an "impound account" to pay taxes and insurance.
- Because of concerns about the word "escrow" being used differently in California, the statements tested on Day 2 used the word "impound" instead. However, only two of the five participants on Day 2 had heard of an "impound account."

Understanding of Overdue Amount

- All participants understood from the statement that they were currently behind on their payments. Most participants said they knew this based on information provided in the Delinquency Notice box. Several knew that they were behind based on information in the Transaction Activity box (*i.e.,* the fact that they had made only a partial payment) and the Explanation of Amount Due box (*i.e.,* the fact that they were being asked to make an overdue payment).
- The Delinquency Notice box stated that the consumer was "49 days delinquent" on his or her loan. However, when asked how long overdue the mortgage company considered them to be, only about half of the participants referenced this text. Other participants said that they were one, two, or three months behind, based on other information on the statement.
- All participants knew that if they did not bring their account up-to-date, the mortgage company would have the right to take their home.

Understanding of Past Payments

- All but one of the participants understood from the statement that the mortgage company had received their payment for the previous month of $1,000.
- When asked what the mortgage company did with their partial payment, about half of the participants understood from the statement that these funds had not been applied to their mortgage loan (similar to the findings from the second round of testing). Of this half, most saw the text in the Important Messages box indicating that these funds were being

held in a separate suspense account; others knew that the payment had not been applied but did not know what had been done with it.[14]

  - The other half of participants mistakenly thought that this payment had been applied. For example, one participant thought that because there was an amount for principal listed in the Paid Year to Date column of the Past Payments Breakdown box, this meant that her partial payment had been applied to the principal.

- After being directed to read the text about partial payments in the Important Messages box, all participants understood that they would have to make additional payments in order to have their partial payment applied to their loan account. In some cases participants did not fully understand how much they would have to pay to have these funds applied. For example, one participant mistakenly thought that she would have to bring her account fully up-to-date before her partial payments would be applied.

Information on Mortgage Counseling and Assistance

- Eight participants were asked what they would do if they were having trouble paying their mortgage. All eight said that the first thing they would do would be to call the mortgage company to inform them of the problem and ask for help.

- Ten participants were asked if the statement provided any information about other organizations they could contact for assistance. Seven of the 10 participants saw the contact information for mortgage counseling and assistance agencies that was on the back of the statement; the remaining three participants did not notice this information.[15] These findings were comparable to the previous rounds of testing.

Requests for Additional Information

- When asked whether additional information should be included in the statement, three participants said that the statement should include information about what to do if faced with difficulty making payments (*e.g.*, who to call, options for how to "get back on track," and/or a message from the mortgage company saying it would work with the consumer to find a solution).

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[14] On both days of testing, references to partial payments in the Transaction Activity and Past Payments Breakdown boxes had an asterisk. On the second day, an asterisk was also added to the text about partial payments in the Important Messages box, to link that information to the other references. There was no evidence from this round that adding this asterisk improved comprehension—in fact, fewer participants on the second day appeared to notice the text in the Important Messages box.

[15] As noted earlier, unlike statements used in the previous two rounds, this statement did not include any references on the front directing consumer to this information.

Key Interview Findings (Payment Option Statement)

Previous Experience with Payment Option Loans

- One of the 11 participants had a payment option mortgage; he indicated that he makes the full payment about half of the time. Only one of the other 10 participants had ever heard of payment option or "pick-a-pay" loans.

Understanding of General Account Information

- After reviewing this statement, all participants correctly identified the amount of money they still owed on the loan.

Understanding of Current Payment Due

- All participants understood from the statement when their current payment was due. All were also able to identify the three different payment amounts they could make.
- All participants understood that if they made the full payment (Option 1), their loan balance would decrease. Seven were able to correctly identify the amount by which their balance would decrease (*i.e.*, $386.46, the amount of the full payment that would be applied to principal).
- All participants understood that if they made the interest-only payment (Option 2), their loan balance would remain the same. All but one of the participants also understood that if they made the minimum payment (Option 3) the balance of their loan would increase, meaning that they would owe more money to the bank.

Subsequent Design Decisions

No significant changes in content, formatting, or tone were made to the notice based on findings from the interviews in this round. CFPB staff made the decision to require the reference on the front of the statement to contact information for mortgage counselors only in situations where the consumer was delinquent, and might have more need for these services. In other situations this reference would not be included on the front of the statement.

Chapter V: Testing of Adjustable Rate Mortgage (ARM) Rate Adjustment Notices

This chapter of the report addresses findings and implications from the three rounds of testing related to ARM rate adjustment notices. The notices used in each round of testing are included in Appendix C.

Round 1: Towson, Maryland (February 1-2, 2012)

The ARM rate adjustment notice used in the first round of interviews tested participant understanding of a scenario in which the consumer's interest rate was estimated to increase from 4.25% to 5.75%. This information, along with the current and estimated new monthly payments, was located prominently near the top of the notice in a table. Other statutorily required elements were included in the notice as well, with short subject headings in bold.

Key Interview Findings

Change in Rate and Payment

- After reviewing the notice, all participants understood that their interest rate and payment were going to increase and when the change would take place (*i.e.*, July 20).
- When asked what their reaction would be if they received this notice in the mail, most participants said they would be concerned about the sharp increase in their monthly payment. Several said they would call the mortgage company to see if there was any way to keep their payment from changing.
- All participants understood that the phrase "adjustable rate mortgage" meant a mortgage on which the interest rate could change over time.
- All participants knew that their first new payment would be due on August 1, 2012; they also correctly identified the estimated new rate and payment provided in the notice.

Calculation of New Interest Rate

- All participants understood that the new rate and payment shown in the notice were estimated and not definite. However, they had several misconceptions about <u>why</u> the notice provided only estimated figures. For example, one participant thought the rate was estimated because it would still be possible to negotiate the rate with the mortgage company. Another participant incorrectly thought the rate was estimated because it could change between July 20 (when the new rate would be calculated) and August 1 (when the new payment was due).
- All participants understood that the rate could continue to change after the initial adjustment on July 20. All but three of the participants also understood that their rate could change annually; others did not see this information on the notice.

- When asked how their new rate would be calculated, most of the participants referred to the Interest Rate section of the notice, which stated that *"The interest rate on your adjustable rate mortgage (ARM) will change based on an index, plus a margin of 2.25%. Your index is the 1-year LIBOR index, which is published daily in the Wall Street Journal."* However, several participants did not understand this text. Only three participants generally understood what "margin" and "index" meant, and that these would be used to calculate the interest rate. Other participants either said they did not know what these terms meant, or held a variety of misconceptions. For example, two participants incorrectly believed that the "margin" was the amount by which the new rate could be different from the estimated rate. Another participant thought "margin" referred to the amount the rate would increase when it adjusted.

- Several participants thought that the mortgage company could determine on its own what the new interest rate would be, and did not understand that the adjustment would be based on the terms of their loan contract.

Mortgage Counseling and Assistance

- When asked what they would do if they thought they would not be able to make their mortgage payment, most participants said that they would first contact their mortgage company. Several said they would also contact HUD and/or the other agencies listed on the notice.

- Two participants mistakenly thought that the phone number provided on the notice was for a mortgage counseling agency, when in fact it was the phone number for the mortgage company.

- When asked where they could find contact information for mortgage counseling or assistance, all but two of the participants pointed out information on the back of the notice about federal and state government agencies and federally- or state-approved mortgage counseling providers. The other two participants saw the reference to mortgage counseling and assistance on the front of the notice, but did not turn the notice over until prompted to do so by the interviewer.

Possible Alternatives for Consumers

- When asked what alternatives existed if they were concerned they would not be able to make their new payment, all participants located the list of alternatives provided on the notice.

- Most participants understood the phrase "renegotiate your loan" to mean working with the mortgage company to change the terms of the mortgage.

- All but two participants understood that "forbearance" meant working with the mortgage company to extend the amount of time they would have to make a payment. However, participants were unsure how much additional time they would gain through forbearance. Several participants thought it would provide them only a few extra days to make their payment. One participant speculated that "forbearance" might also mean that there would be an opportunity to make up a payment later or have it forgiven entirely.

- Only about half of the participants understood what was meant by *"transfer ownership of the property directly to us in order to avoid foreclosure"*. One participant incorrectly believed this option was the same as foreclosure; another said it was similar to foreclosure except that the consumer's credit would not be affected if he or she transferred ownership directly to the mortgage company. One participant mistakenly thought that this option was similar to a reverse mortgage, in that the consumer would then rent the home from the mortgage company. Several participants seemed unsure as to why a consumer would elect to transfer ownership in this way.

Requests for Additional Information

- When asked whether any additional information should be included in the notice, most participants suggested providing more explanation about why the interest rate was increasing and how the new rate would be calculated. Other suggestions included explaining the consumer's alternatives in more detail and including a breakdown of how the new payment would be applied to principal, interest, and escrow.

Subsequent Design Decisions

Following the first round of testing, a number of revisions were made to the notice. The following section describes revisions that were most significant in terms of content, formatting, or tone.

- Because a few participants in the first round suggested that the notice clarify why the rate and payment were changing, the following text was added to the first paragraph of the notice: *"Under the terms of your Adjustable Rate Mortgage (ARM), you had a three-year period during which your interest rate stayed the same. That period ends on August 20, 2012, so on that date your interest rate may change."*

- Because most participants expressed some confusion about how their new interest rate would be calculated, the Interest Rate section was rewritten to explain more clearly how an index and margin would be used to determine the new rate.

- Because a number of participants in the first round misunderstood why the notice provided only an estimate of their new rate and payment, the text in the New Monthly Payment section was revised to clarify that: *"…if the LIBOR index has changed on August 20, your new interest rate and payment may be different from what is shown above."*

- Because three participants did not understand that their interest rate would adjust annually for the remainder of their loan term, this information was added to the first paragraph. For reasons of space, the sentence *"For more detailed information, please refer to your loan agreement(s)"* was deleted.

- Because at least two participants misunderstood whom they would reach at the phone number on the front of the form, in the revised forms the phrase "Contact us" was changed to "Contact Springside Mortgage."

- Because of concerns that participants might misunderstand the reference to renegotiating loan terms, the word "renegotiate" was changed to "modify."
- In order to clarify the sender and recipient of the notice, both the mortgage company's and the consumer's names and addresses were added to the top of the document used in the second round.

Round 2: Memphis, Tennessee (February 29 – March 1, 2012)

The notice tested in Round 2 was revised based on findings from the first round of testing (as described above). The scenario presented in the notice in Round 2 was the same as in Round 1.

Key Interview Findings

Change in Rate and Payment

- After reviewing the notice, all participants understood that their interest rate and payment were going to increase, and when the change would take place (*i.e.*, August 20).
- Based on the information provided in the notice, all participants understood that under the terms of their mortgage, the interest rate was fixed for the first three years and could change after that time.
- All participants understood that their first new payment would be due September 1, 2012, and all correctly identified the estimated new rate and payment that were provided in the notice.

Calculation of New Interest Rate

- All but three participants understood that the new rate and payment shown in the notice were estimated and not definite. Three mistakenly thought that the exact rate and payment shown would definitely apply after the rate changed on August 20.
- All participants understood that after the rate changed on August 20, it could continue to change annually. This was an improvement compared to the first round, which did not include a sentence stating this fact in the first paragraph.
- When asked if the mortgage company determined on its own what their new rate would be, six participants understood that it did not have control over the rate. (This was similar to the first round of testing.) The remaining four participants believed the mortgage company had some direct role in determining the rate. However, after being instructed to reread the section that explained the calculation of the new interest rate, two of these participants came to understand that the mortgage company did not have control over the new rate.
- Of the six participants who understood that the mortgage company did not control the rate, three understood that their rate would be determined using an index and margin. The other three participants were able to identify the section of the notice that explained how the rate was determined, but could not explain what it meant.

- The participants were also asked how they thought the index rate (*i.e.*, the 1-year LIBOR) was determined.[16] Half of the participants said they did not know. Others gave a variety of responses, including: that the index was an average of interest rates on mortgages nationwide, that it was *"like the Prime Rate that everyone goes by,"* that it was *"like the stock market,"* or that it had *"something to do with the economy."*

Mortgage Counseling and Assistance

- When asked what they would do if they thought they would not be able to make their mortgage payment, most participants said that they would first contact the mortgage company. A few said they would also contact HUD and/or the other agencies listed on the notice.

- When asked if the notice included contact information for organizations offering mortgage counseling or assistance, all participants pointed out information on the back of the notice about federal and state government agencies and federally- or state-approved mortgage counseling providers.

Possible Alternatives for Consumers

- When asked what they could do if they were concerned they would not be able to make their new payment, all participants located the list of alternatives provided on the notice.

- Most participants understood the phrase "modify your loan terms with us" to mean working with the mortgage company to change the terms of the mortgage (*e.g.*, lower the interest rate, change the rate from variable to fixed, or increase the length of the loan term).

- Participants generally understood "forbearance" to mean that they would have more time to make their payments or that they would be able to spread their payments over a longer period of time. Two participants said they would be concerned that this alternative would ultimately be costly, either because of *"a big balloon payment"* or because they would be charged many fees for partial payments.

- About half of the participants understood what the last option on the list (*i.e.*, to transfer ownership of the property directly to the mortgage company) meant. One participant incorrectly believed that this alternative was similar to a short sale, while another incorrectly thought this option meant they would transfer ownership to someone other than the mortgage company. Two participants were unsure how this option was different from foreclosure. These findings were similar to those from the first round of testing.

Requests for Additional Information

- When asked whether any additional information should be included in the notice, two participants suggested providing a better explanation of the possible alternatives. Other suggestions included providing a better explanation of how the rate is determined,

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[16] This information was not included on the notice they were shown.

explaining more clearly why the rate was going to increase, and indicating whether the counseling and assistance organizations would charge consumers for their services.

Subsequent Design Decisions

No significant changes in content, formatting, or tone were made to the notice based on findings from the interviews this round.

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

As noted above, no significant changes were made to the ARM notice based on findings from Round 2. However, the notice was revised to reflect a different loan scenario. For the third round, the ARM rate adjustment notice indicated that the payments that the consumer had already made were interest-only, but that the new payments would be amortizing. This was noted in three places:

- In the first paragraph, the notice stated: *"as of September 29, 2012 your mortgage payment will include principal as well as interest."*
- In the New Interest Rate and Monthly Payment section, the notice stated: *"Your new payment will cover all of your interest and some of your loan's principal, and therefore will reduce your loan balance."*
- Unlike in earlier versions of the ARM rate adjustment notice, the table showing the current and estimated new interest rates and payments broke the payments into portions for principal, interest, and escrow. The table showed that the portion of the current payment devoted to principal was "none," to reflect the fact that this payment was interest-only. In the column for the estimated new payment, the principal and interest rows were combined into a single figure.[17]

The notice was also changed to reflect an "interest rate carryover" scenario. In this scenario the 2.00% limit on annual rate increases prevented an increase of an additional 1.00%. This was disclosed in the Rate Limits section, which stated that if not for the rate limit *"your estimated rate on September 29 would be 1.00% higher. This additional amount may be applied to your interest rate when it adjusts again next year."*

Key Interview Findings

Change in Rate and Payment

- After reviewing the notice, all participants understood that their interest rate and payment were going to increase and when the changes would take place (*i.e.*, September 29). Compared to previous rounds, participants in Round 3 took a slightly longer time to answer these questions, perhaps because the ARM notice for this round contained more information than those in previous rounds.

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[17] The principal and interest portions for the estimated new payment were combined because once amortization began, the allocation of funds to principal and interest would change monthly.

- About half of the participants understood that their payments were changing from interest-only to amortizing (*i.e.*, that their new payments would include principal). Of the other half, all but one understood this after they were directed by the interviewer to reread the relevant text.[18]

- Several participants were confused about why the table in the notice broke out principal and interest for the current payment, but combined the two into a single cell for the new payment. In some cases this created confusion. For example, at least one participant assumed that because the table said that no principal was included in the current payments and did not list a principal amount for the new payment, this meant that the new payment was also interest-only.

- One participant incorrectly thought that because the notice stated that *"Your new payment will cover all of your interest and <u>some</u> of your loan's principal,"* this meant that a consumer would have to make extra payments over time to fully pay down his or her loan balance (underlining added for emphasis; "some" was not underlined in the notice).

Calculation of New Interest Rate

- All but one of the participants understood that after September 29, the rate could continue to change annually. The remaining participant did not think that the rate could change again after September 29.

- When asked how the new interest rate would be determined, about half of the participants said they did not know, or gave incorrect answers (*e.g.*, that their rate would increase by two percent each year). The other half referred to the LIBOR index and the margin. However, as in previous rounds, it was not clear that these participants truly understood how the index and margin would be used to calculate the new interest rate.

Interest Rate Carryover

- The notice being tested showed an estimated interest rate increase of 2.00%. It also stated that if not for the annual 2.00% limit on rate increases, the interest rate on the loan would have increased by 1.00% more, and that this additional amount could be applied the following year. To test their understanding of "interest rate carryover," participants were asked what their rate would be the following year if their loan terms and the LIBOR index remained the same. Only two of the 11 participants understood that under this scenario, their interest rate would increase the following year by 1.00%.

- The other nine participants were specifically directed by the interviewer to read two sentences in the notice: one that read *"If not for this rate limit, your estimated rate on September 29 would be 1.00% higher,"* and another that read, *"This additional amount may be applied to your interest rate when it adjusts again next year."* Even after re-

[18] Two different approaches were used when asking about this portion of the notice. The final four participants were told before seeing the form that their current payments were interest-only, since real-world consumers who received this notice might know this already. The first seven participants were not told in advance that any payments were interest-only. This difference in approach did not significantly affect the results; about half of both groups realized on their own that their payments were changing from interest-only to amortizing.

reading these sentences, these participants were confused and did not understand the meaning. For several participants, these sentences seemed only to cause confusion about what was going to happen to their interest rate in the current year. For example, one participant thought these sentences meant that her interest rate would increase by 3.00% on September 29, and another thought his rate would increase by 1.00%.

Subsequent Design Decisions

Based on the findings from the third round of testing, the following changes were made to the notice.

- Participants were consistently confused by the fact that the table on the notice broke out principal and interest for the current interest-only payment, but not for the estimated new payment. Therefore, the table was revised so that principal and interest would be listed for both the current and new payments in the proposed model forms.[19]
- Because participants had a great deal of difficulty understanding the impact of rate limits on the change in their interest rate, the portion of the notice explaining interest rate carryover was revised for clarity and simplification following the third round.
- The date of the upcoming adjustment and the frequency of ensuing adjustments were removed from the Interest Rate section, because they were redundant with information already provided in the first paragraph.

[19] A note was also added to the notice that indicated the breakdown of principal and interest for the new payment was only accurate for the first payment that was due.

Chapter VI: Testing of Force-Placed Insurance Notices

This chapter addresses findings and implications from the three rounds of testing related to force-placed insurance notices. The statements used in each round of testing are included in Appendix C.

Round 1: Towson, Maryland (February 1-2, 2012)

The notice used in the first round of testing was a model form of the first notice that would be sent by a mortgage company (*i.e.*, no fewer than 45 days before it could begin charging the consumer for force-placed insurance).

Key Interview Findings

Understanding of the Mortgage Company's Right to Obtain Force-Placed Insurance

- All participants understood from the notice that the mortgage company did not have proof of insurance on their property, and that their policy may have been canceled or expired.
- All of the participants understood that if they did nothing, the mortgage company could purchase insurance on their behalf.
- All participants understood that if they did not want the mortgage company to purchase insurance, they needed provide proof that they had their own insurance coverage.

Potential Disadvantages of Force-Placed Insurance

- All participants understood from the notice that insurance purchased by the mortgage company may provide less coverage than what they could purchase independently. All but one of the participants also understood that the insurance purchased by the mortgage company would probably be more expensive than what they could purchase on their own.
- When asked if it would be good or bad if the mortgage company purchased insurance on their behalf, most participants understood that it would be bad and said they would prefer to purchase their own coverage. However, three participants thought it would be *good* for them because it was better to have some insurance coverage than none at all. Nevertheless, these three participants also said they would try to obtain their own insurance because it would be better coverage than what the mortgage company would purchase on their behalf.

Participants' Reactions to the Force-Placed Insurance Notice

- All participants said that if they received this notice, they would contact their insurance company to find out why their policy had lapsed. When asked what they would do if they did not have insurance coverage, they said they would obtain coverage and send proof of insurance to the mortgage company.

- When asked whether it would make a difference how quickly they responded to the information in the notice, all participants said they would act immediately, both because they would not want to pay for expensive insurance purchased by the mortgage company and because they wanted to be sure they had insurance coverage on their property.

Participants' Understanding of the Circumstances under Which They Would Be Charged

- While all participants indicated that they would act immediately if they received this notice, several did not understand exactly when the mortgage company could purchase insurance for them. In particular, at least three participants assumed that they would have a grace period after they received the letter during which the mortgage company would give them time to respond before purchasing insurance on their behalf.

Requests for Additional Information

- When asked whether any additional information should be included in the notice, six participants suggested including a date or time frame for how long they had to resolve the issue before incurring charges for the force-placed insurance. Two participants suggested including contact information for insurance companies through which consumers could purchase their own insurance.

Subsequent Design Decisions

Based on findings from the first round of testing, several revisions were made to the notice. The following section describes revisions that were most significant in terms of content, formatting, or tone.

- As noted above, several participants were confused about when the mortgage company would purchase insurance on the consumer's behalf. To alleviate this confusion, two different versions of the force-placed insurance notice were created for the second round of testing. The first version indicated that the mortgage company had *already purchased* insurance on the consumer's behalf, while the second version indicated that the mortgage company "may purchase" insurance. The intent was that mortgage companies would provide each consumer with the version that applied to his or her specific situation.

- The statement *"You should immediately purchase or renew your own insurance policy,"* was added to the notices tested in the second round of interviews because it was more direct and might compel consumers to take action more quickly.

- For the second round of testing, the following paragraph was removed from the form: *"The total cost of the insurance we buy will include the premium and any applicable taxes or fees. If you have an escrow account, this cost may be charged to your escrow account. If you do not have an escrow account, we may establish an escrow account in accordance with the terms of your mortgage."* This information was removed to reduce the amount of text in the notice and because it was deemed less important to consumers than other information.

- The revised versions of the notice explicitly stated that if force-placed insurance was purchased, the consumer would have to pay the mortgage company for any period during which he or she did not have his or her own insurance. This text was intended to clarify the precise situation under which consumers would incur a charge for force-placed insurance.

Round 2: Memphis, Tennessee (February 29 – March 1, 2012)

Two versions of the force-placed insurance notice were tested this round. One version (Version WP) explained that the consumer's insurance policy had lapsed and that the mortgage company may purchase insurance on the consumer's behalf at some point in the future. The other version (Version AP) indicated said that the mortgage company had already purchased insurance on the consumer's behalf.

Due to time constraints, participants reviewed only one of the two versions of the notice: seven participants were shown Version WP, and three were shown Version AP.

Key Interview Findings

Understanding of Mortgage Company's Right to Obtain Force-Placed Insurance

- All participants understood from the notice that the mortgage company did not have proof of insurance on their property, and that their insurance policy had lapsed.
- All seven participants shown Version WP understood that if they did nothing, the mortgage company could purchase insurance on their behalf. The three participants who were shown Version AP understood that the mortgage company had already purchased insurance on their behalf.
- All participants understood that, if they did not want to pay for insurance purchased by the mortgage company, they needed to provide proof that they had their own insurance coverage.

Potential Disadvantages of Force-Placed Insurance

- All participants understood from the notice that insurance purchased by the mortgage company would probably be more expensive than what they purchased on their own. All but two of the participants also understood that the insurance purchased by the mortgage company may provide less coverage than what they could purchase independently.
- One participant noted that while she knew a policy she purchased herself would be less expensive than one purchased by the mortgage company, she would prefer for the mortgage company to purchase insurance for her if she was facing an annual insurance payment that she could not afford. She said in that situation it might be preferable to pay for insurance through her escrow account because that would allow her to make small payments over a longer period of time (rather than one large payment).

Participants' Reactions to the Force-Placed Insurance Notice

- All participants said that if they received this notice, they would immediately contact their insurance company to find out why their policy had lapsed. When asked what they would do if they found out they did not have insurance coverage, they said they would obtain coverage and send proof of insurance to the mortgage company.

- All participants said they would respond immediately to this notice, both because they would not want to pay for insurance purchased by the mortgage company and because they wanted to be sure they had insurance coverage on their property.

Participants' Understanding of the Circumstances under Which They Would Be Charged

- All participants understood from the letter that the mortgage company could charge them for the force-placed insurance for any time during which they did not have their own coverage. One participant expressed doubt over whether the mortgage company would actually charge her if the lapse lasted less than one month, but these findings were still an improvement compared to the first round of testing.

- All participants understood that they would not be charged for any overlap of their own coverage and force-placed coverage purchased by the mortgage company.

Requests for Additional Information

- When asked whether any additional information should be included in the notice, only two participants had any suggestions. One suggested including the date after which the mortgage company would purchase force-placed insurance. The other participant wanted more information about the level of coverage force-placed insurance would provide.

Subsequent Design Decisions

Because results from the second round of testing showed that participants' comprehension of the statement was generally high, only a few changes were made to the notice for the following round.

- Because of concern that consumers might not understand that they could obtain their own insurance even after force-placed insurance had been purchased by the mortgage company, text was added to the notice stating that, *"<u>if you give us proof of insurance at any time</u>, we will not charge you for any period during which you can prove you had your own insurance"* (new text underlined).

- In this round, the first paragraph of Version WP stated that the mortgage company "may purchase insurance on your behalf." In the notices for the third round, the word "insurance" in this sentence was replaced with the phrase "force-placed insurance," to test whether the inclusion of this term might spur consumers into action more quickly.

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

In the third round of interviews, two versions of the force-placed insurance notice were tested. The first was a revised Version WP notice from the previous round. Unlike in the previous rounds, this notice was intended to model the <u>second</u> communication that a consumer would receive before he or she could be charged for force-placed insurance. Therefore, it noted in two places that it was the "second and final notice" the consumer would receive.

The other version of the notice (Version RN) reflected a scenario in which the mortgage company had purchased force-placed insurance the previous year, and was now informing the consumer that it would renew its force-placed policy if proof of coverage was not provided. Version RN was otherwise identical to Version AP from the second round of testing.

Due to time constraints, participants reviewed only one of the two versions of the force-placed insurance notice: three were shown Version WP and eight were shown Version RN.

Key Interview Findings

Understanding of the Mortgage Company's Right to Obtain and Renew Force-Placed Insurance

- All participants understood from the notices that the mortgage company did not have proof of insurance on their property.
  - All three participants who were shown Version WP understood that the mortgage company had sent them a previous notice with the same information.
  - All but one of the eight participants who were shown Version RN understood that for the past year their home had been covered by insurance purchased on their behalf by the mortgage company.
- Five of the eight participants who were shown Version RN understood that for the past year they had been paying the premiums for the force-placed insurance. The remaining three participants incorrectly believed that the mortgage company had been paying for the coverage. However, based on their answers to subsequent questions, these three participants seemed to understand that they would ultimately be responsible for this cost.
- All participants understood that if they did nothing, the mortgage company could purchase insurance coverage on their behalf (or renew it, in the case of Version RN).
- All participants understood that if they did not want the mortgage company to purchase or renew insurance coverage on their behalf, they needed to provide the mortgage company with proof of insurance coverage.

Potential Disadvantages of Force-Placed Insurance

- All participants understood that insurance they purchased on their own would probably be less expensive and offer better coverage than what the mortgage company purchased.

Participants' Reactions to the Force-Placed Insurance Notice

- All participants indicated that if they received the letter, they would act to get their own insurance coverage and that they would do so quickly in order to avoid being charged for any period during which they did not have coverage. They also understood that if they provided proof of insurance coverage, they would not be charged by the mortgage company for insurance coverage purchased on their behalf.

Participants' Understanding of the Circumstances under Which They Would Be Charged

- All three participants who were shown Version WP understood that even if force-placed insurance was already in place on their property for a period of time (*e.g.*, four months), they could still purchase their own insurance and it would be beneficial for them to do so.

- Participants who were shown Version WP were asked if they could be charged for a one-month period during which they had force-placed insurance and no other coverage. Two of the three participants understood that they could be charged for that time. The remaining participant incorrectly believed that if she provided proof of insurance at any time, she would not have to pay for any force-placed insurance premiums from the previous months.

- Participants who were shown Version RN were asked if they could still get their own insurance policy if they waited until after the mortgage company had already renewed the force-placed coverage. All eight participants understood that they could purchase their own coverage at any time.

- Participants who were shown Version RN were told to imagine a scenario in which they waited until several months after the mortgage company had renewed their force-placed policy before purchasing their own insurance. All of these participants understood that they could still purchase their own insurance, and that if they provided proof of coverage to the mortgage company it would cancel its force-placed policy and would stop charging them for it.

Subsequent Design Decisions

Because results showed that participants' comprehension of the statement was high, only a few changes were made to the notice following the third round of testing.

- As noted above, the term "force-placed insurance" was included in the notices used in this round to test whether it might spur consumers to take action more quickly. Because most participants in the third round of testing did not seem to notice this reference, the term "force-placed" was removed from the notice.

- The notices used in testing indicated that consumers could contact their mortgage company by phone, e-mail, mail, or fax. Because testing showed that almost all consumers preferred to contact their mortgage company by phone, other contact information was removed from the notice.

Chapter VII: Conclusion

This report summarizes work conducted by ICF from November 2011 through July 2012 in support of CFPB's efforts to develop rules and model forms related to mortgage servicing. It describes the forms that were initially drafted by ICF in collaboration with CFPB and how findings from cognitive testing led to revisions to those forms.

The empirical research findings described in this report will be an important source of data for CFPB as it prepares its proposed rules and finalizes its model forms. This direct input from consumers will help ensure that new disclosure forms are easy for consumers to understand and use in making decisions about their mortgages.

Appendix A:
Sample Recruitment Screener

Participant Screener for Mortgage Servicing Interviews
Los Angeles, CA
April 3rd-4th, 2012

General Information and Recruiting Specifications

- *Ten In-Depth Interviews*
  - Interviews will be held during slots scheduled for [date and time]
  - Length of interview: 60 minutes
  - Twelve interview slots have been scheduled to ensure at least 10 interviews occur.
- RECRUITERS: Ask all interview participants to bring their reading glasses, if necessary, because they will be asked to read several sample mortgage documents as part of the interview.

Recruiting Script

Hello, my name is **[first and last name]**. May I speak to **[candidate]**?

If someone other than Respondent asks why you are calling, say: I'm calling regarding an important US government study about mortgage loans and disclosures.

Say to Respondent: I am calling from **Atkins Research Group** for ICF International. ICF International is working with a US government agency, the Consumer Financial Protection Bureau to conduct a study to learn about consumers' opinions regarding the effectiveness and helpfulness of information they receive about their mortgage from their mortgage company. These questions have been approved by the US government Office of Management and Budget and have been assigned OMB Control Number 3170-0018.

We would like to invite you to participate in an interview being held during the week of April 2nd, 2012. In this interview, we will ask you to review some sample mortgage disclosure forms, perform a series of tasks with respect to those forms, and give your opinion about how helpful those forms are. These interviews are being held so that the government can learn more about how borrowers understand information regarding their mortgages and can receive information that assists borrowers in making appropriate decisions with respect to their mortgages. There will be no forms or information relating to your own mortgage (or anyone else's); the forms are generic. It is important that you know that we will be audio- and videotaping your interview so that we can be sure to collect what you say accurately. However, your name will not appear in any reports. Also, just so you are not surprised, we want to emphasize that this will be a one-on-one interview, not a focus group.

We will pay you $65 at the end of the interview for your participation. Do you have a few minutes to answer some pre-qualifying questions? (*If not,* What would be a convenient time to call back?)

If necessary: We are not selling anything, we are only looking to find people to participate in a study that the CFPB is conducting. Everything you say will be kept private except where required by law. Further, your personal information will not be given to CFPB.

Q1: Do you currently own a home that you live in?

- ❑ Yes → Continue
- ❑ No → *Thank respondent politely and end call.*

Q2: Do you currently have a mortgage on this property?

- ❑ Yes → Continue
- ❑ No → *Thank respondent politely and end call.*

Q3: Are you the person in your household who is responsible for making decisions related to this mortgage?

- ❑ Yes → *Continue*
- ❑ Yes, in cooperation with my [spouse, partner, etc.] → *Continue*
- ❑ No → *Thank respondent politely and end call.*

Q4: Do you work or have you ever worked for a bank or other financial institution, in the real estate industry, or the mortgage industry?

- ❑ Yes → *Thank respondent politely and end call.*
- ❑ No → Continue

Q5: Have you participated in any other interviews or focus groups in the past 6 months?

- ❑ Yes → *Thank respondent politely and end call.*
- ❑ No → Continue

Q6: ARTICULATION QUESTION: In a few sentences, could you describe the process through which you found your current mortgage lender?

- ❑ If respondent gives a thoughtful, articulate answer → **Respondent qualifies**
- ❑ If respondent does <u>not</u> give a thoughtful, articulate answer → *Thank respondent politely and end call.*

Screening Criteria	**Recruiting Quotas**
Q7: In the past two years, have you ever had difficulty coming up with the money for a mortgage payment? a) Yes b) No	• At least 7 recruits should answer "Yes"

Screening Criteria	**Recruiting Quotas**
Q8: Some mortgages have an adjustable interest rate—that is, an interest rate that can change over time. Does your mortgage have a rate that is adjustable or will become adjustable in the future? a) Yes➔*Skip to Q9* b) No c) I don't know Q8b) *Ask only if Q8=(b) or (c):* Have you <u>ever</u> had a mortgage with an adjustable interest rate? a) Yes b) No c) I don't know	• At least 7 recruits should answer (a) to <u>either</u> Q8 or Q8b • At least 4 recruits should answer either (b) or (c) for <u>both</u> Q8 and Q8b
Q9: What is your age? a) 18 to 35 b) 36 to 50 c) 51 or above	• At least 2 recruits should answer (a) • At least 4 recruits should answer (b) • At least 4 recruits should answer (c)
Q10: Which of the following categories best reflects your race or ethnicity? You can choose more than one category. a) White b) Black or African-American c) Hispanic or Latino d) Asian e) Native American or Pacific Islander	• At least 5 recruits should respond (b), (c), (d), or (e) (*Respondents who choose more than one category should be counted as (b), (c), (d), or (e)*)
Q11: What is the highest level that you reached in school? a) High school degree or less b) Some college work c) College graduate	• At least 3 recruits should respond (a) • At least 4 recruits should respond (b)
Q12*: Gender*	• At least 5 recruits of each gender

If participant qualifies: Based on your responses, we would like to invite you to participate in an interview, which will be held at [*address of interview facility*]. The interview will last about 60 minutes. We will be showing you some sample documents for you to refer to, <u>so if you use reading glasses please be sure that you bring them</u>. We will provide you with a $65 stipend for participating in the interview.

APPENDIX B: PARTICIPANT DEMOGRAPHIC INFORMATION

	Towson, MD Feb. 1-2, 2012 (n=10)	Memphis, TN Feb. 29-Mar. 1, 2012 (n=10)	Los Angeles, CA Apr. 3-4, 2012 (n=11)	Total (n=31)
Gender				
Male	5	4	5	14 (45%)
Female	5	6	6	17 (55%)
Age				
18-35	2	1	1	4 (13%)
36-50	3	4	6	13 (42%)
51 or older	5	5	4	14 (45%)
Highest Level of Education				
High school degree or less	5	4	2	11 (35%)
Some college	4	4	4	12 (39%)
College graduate	1	2	5	8 (26%)
Race/Ethnicity				
Black or African American	5	7	4	16 (52%)
White or Caucasian	5	3	3	11 (35%)
Hispanic or Latino	0	0	4	4 (13%)
Difficulty Making Mortgage Payments in Past 2 Years?				
Yes	7	8	7	22 (71%)
No	3	2	4	9 (29%)
Experience with Adjustable Rate Mortgages (ARM)				
Currently has an ARM	4	3	3	10 (32%)
Previously had an ARM	2	3	4	9 (29%)
Never had an ARM	4	4	4	12 (39%)

Appendix C:
Model Forms Used in Testing

Round 1:
Towson, MD
February 1-2, 2012

Springside Mortgage

Mortgage Statement

Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Bethesda, MD 20814

Account Number	**1234567**
Payment Due Date	**4/1/2012**
Amount Due	**$1,829.71**
If payment is received after 4/15/12, pay $1,989.71	

Account Information

Property Address	4700 Oak Ridge Ln Bethesda, MD 20814
Remaining Loan Balance	$264,776.43
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty	$35,000.00

Current Payment Due

Principal	$386.46
Interest	$1,048.07
Escrow (for Taxes and Insurance)	$235.18
Regular Monthly Payment	**$1,669.71**
Total Fees Charged	$160.00
Total Amount Due	**$1,829.71**

Contact Us

By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com

See back for mailing addresses

Transaction Activity

Date	Description	Charges	Payments
3/16/12	Late Fee (charged because payment was received after 3/15/2012)	$160.00	
3/17/12	Payment Received – Thank you		$1,669.71

Past Payments Breakdown

	Paid Last Month	Paid Year to Date
Principal	$384.93	$1,150.25
Interest	$1,049.60	$3,153.34
Escrow (Taxes and Insurance)	$235.18	$705.54
Fees	$0.00	$0.00
Partial Payment (Unapplied)	$0.00	$0.00
Total	**$1,669.71**	**$5,009.13**

Important Messages

If You Are Experiencing Financial Difficulty: If you would like mortgage counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. On the back of this page, we have also provided contact information for three state- or federally-approved counseling programs in your area.

We are pleased to have you as a Springside Mortgage customer. We are known throughout the country for the quality of our service and our dedication to providing financial security for our customers. We will do everything we can to make you feel at home, and to ensure you receive the friendly, professional service you deserve.

Springside Mortgage

Springside Mortgage
8100 Market Ave
Bethesda, MD 20814

Amount Due		
Due By 4/1/2012:		**$1,829.71**
If received after 4/15/2012:		*$1,989.71*
Please designate how you want us to apply any additional funds.		
Additional Principal	$	.
Additional Escrow	$	.
Other Charges (specify):	$	.
Total Amount Enclosed	**$**	**.**

1234567 34571892 342359127

Payment Options

Springside Mortgage provides you the following options for making your mortgage loan payments.

- **Mail:** P.O. Box 11111, Baltimore, MD 21264
- **Online***: www.springsidemortgage.com
- **Pay-by-phone****: 1-800-123-4567
- **Automatic Deduction:** Enroll at www.springsidemortgage.com
- **In Person:** At any Springside Mortgage branch

*Select "My Mortgage Info" from the "Online Services Menu."
** A fee may apply for this service.

Online Services

Springside Mortgage offers a variety of online services to help you better manage your mortgage loans including:

- Payments
- Electronic Statements
- "Notify me" alerts for payments received or escrow disbursements

You can also view your loan payment history, amortization schedule, principal balance, interest rate and escrow account activity
Simply visit www.springsidemortgage.com and select "My Mortgage Info" from the online services menu. For further assistance please contact us at 1-800-678-4567.

Payment Information

- **Additional Amount:** Please designate how you want additional funds to be applied; we will apply them as directed provided your account is current. If your account is current, undesignated funds will be applied per the terms of your mortgage loan documents. Regardless of the account status, principal prepayments will only be applied to your account if your contract allows for prepayments.
- **Please be prompt**. Payments must reach Springside Mortgage by the due date. **Your payment is credited on the day it is received at our payment center, not the day it is postmarked.** Payments made at a Springside Mortgage branch prior to the change of the business day will be credited the same day. Payments are not accepted at Springside Mortgage origination offices.
- If you are in bankruptcy or received a bankruptcy discharge of debt, this communication is not an attempt to collect a debt against you personally, but strictly for informational purposes only.
- **Notice of Negative Information**: We may report information about your account to the Credit Bureaus. Late payment, missed payments, other defaults, or bankruptcy filing on your account may be reflected in your credit report.

Mortgage Counseling and Assistance

If you would like counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. Below is contact information for the housing finance authority in your state and for three state- or federally-approved counseling programs in your area.

- **Maryland Department of Housing and Community Development**
  100 Community Place
  Crownsville, MD 21032
  410-514-7000 or 1-800-756-0119
  www.mdhousing.org
- **Consumer Credit Counseling Services of Maryland and Delaware, Inc.**
  757 Frederick Rd
  Baltimore, MD 21228
  1-866-731-8486
  www.cccs-inc.org
- **St. Ambrose Housing Aid Center, Inc.**
  321 E. 25th St
  Baltimore, MD 21218
  410-366-8550 x235
  www.stambros.org
- **Housing Initiative Partnership, Inc.**
  6525 Belcrest Road, Suite 555
  Hyattsville, MD 20782
  301-699-3835
  www.hiphomes.org

Automated Account Information

Account information is easy to access through Springside Mortgage's Automated Phone Service by calling 877-555-9988 or 1-800-555-2222. Please have your loan number and the first five (5) digits of your Social Security Number to access this convenient service. Automated information is available Monday-Sunday 7:00 a.m to 11:00 p.m., Eastern Time.

Consumer Complaints and Inquiries

- You can direct any complaints and inquiries to Springside Mortgage by referencing the "Contact Us" section on the first page of this statement.
- You have the right to file complaints about Springside Mortgage with your state banking department.

Service Fee Schedule (Unless Limited by State Law)*

Amortization Schedule: $25.00
Account History (per year): $10.00
Duplicate 1098/Escrow Analysis: $10.00
Verification of Mortgage: $20.00
Document Copies (per request): $20.00
Subsequent Payoff Statement: Varies
Automated Payment by Phone: $15.00
Fax Fee: Varies
Returned Check Fee: Varies
*May be subject to change

Important Springside Mortgage Contact Information

Payments:
P.O. Box 11111
Baltimore, MD 21264
Correspondence Address:
P.O. Box 12111
Buffalo, NY 14240
Fax Numbers:
Fax payoff requests: 1-866-221-2222
Fax all other Customer Service requests: 1-866-555-5555
Overnight Mail:
1 Fountain Plaza
Buffalo, NY 14203
Questions about Insurance:
P.O. Box 32309
Springfield, OH 45501
Questions about Tax:
P.O. Box 209433
Fort Worth, TX 76161

Homeowners Insurance/Property Tax Information

- **Insurance Requirements:** The terms of your loan require that you maintain homeowners insurance coverage not less than the replacement value of your property. We suggest that you consult your insurance company to determine these coverage amounts. Flood Insurance is required for all properties located in a Special Flood Hazard Area as designated by FEMA.
- **Policy Information:** To protect our mutual interests, the mortgage clause of your policy must include the following: Springside Mortgage, its Successors and/or Assigns, Mortgage Loan #____, P.O. Box 392, Springfield, OH 20932. If you pay your own insurance, please ensure that you provide us with your current insurance information by visiting our website at www.mycoverageinfo.com. You may also mail or fax a copy of the declaration page to our office (Fax # 1-877-495-4455).
- **Damaged Property:** In the event of damage to your home, notify your insurance agent. After the claim has been filed, please contact us at 1-888-555-3434 so that we may guide you through this process.
- **Loans with Tax Escrow:** If your property taxes are paid from an escrow account with us and you receive a tax bill, please forward the bill immediately to the following address: Springside Mortgage, P.O. Box 30944, Fort Worth, TX 39393. Please be sure to write your loan number on the bill. It is no longer necessary to forward paid tax receipts on non-escrow accounts. For property-related tax questions please call 1-877-555-4444.

January 20, 2012

Changes to Your Mortgage Interest Rate and Payments on July 20, 2012

This notice tells you that your interest rate may begin to change on July 20, 2012. Note that any change to your interest rate may also change your mortgage payment. For more detailed information, please refer to your loan agreement(s).

	Current Rate and Monthly Payment	**Estimated New** Rate and Monthly Payment
Interest Rate	4.25%	5.75%
Total Monthly Payment	**$1,746.00**	**$2,463.00 (due August 1, 2012)**

Interest Rate: The interest rate on your adjustable rate mortgage (ARM) will change based on an index, plus a margin of 2.25%. Your index is the 1-year LIBOR index, which is published daily in the Wall Street Journal.

Rate Limits: Beginning July 20, 2012, your rate can change each year by no more than 2.00%. Your rate can not go higher than 11.625% over the life of the loan.

New Monthly Payment: The table above shows our estimate of your new interest rate and new monthly payment. The index on which your interest rate is based may change at any time, making it impossible to predict exactly what your interest rate and payment will be after July 20, 2012. The estimate is based on today's index value, your margin of 2.25%, your current loan balance of $243,267 and your remaining loan term of 324 months.

Possible Alternatives: If you seek an alternative to the upcoming changes to your interest rate and payment, the following options may be possible (most are subject to lender approval):

- Refinance your loan with us or another lender.
- Sell your home and use the proceeds to pay off your current loan.
- Renegotiate your loan terms with us.
- Payment forbearance, which temporarily gives you more time to pay your monthly payment.
- Transfer ownership of the property directly to us in order to avoid foreclosure.

Prepayment Penalty: Keep in mind that if you pay off your loan, refinance or sell your home before May 1, 2012 you could be charged a penalty of up to $4,323.13.

If You Anticipate Problems Making Your Payments: Contact us at 1-800-555-4567 as soon as possible. If you would like counseling or assistance, you can contact any of the following:

Federal and State Housing Finance Agencies:

- U.S. Department of Housing and Urban Development (HUD): For a list of counseling agencies or programs in your area, go to www.hud.gov or call 800-569-4287.

(*continued on other side*)

- Maryland Department of Housing and Community Development
  100 Community Place
  Crownsville, MD 21032
  410-514-7000 or 1-800-756-0119
  www.mdhousing.org

Federally- or State-approved counseling agencies and programs:

- Consumer Credit Counseling Services of Maryland and Delaware, Inc.
  757 Frederick Rd
  Baltimore, MD 21228
  1-866-731-8486
  www.cccs-inc.org

- St. Ambrose Housing Aid Center, Inc.
  321 E. 25th St
  Baltimore, MD 21218
  410-366-8550 x235
  www.stambros.org

- Housing Initiative Partnership, Inc.
  6525 Belcrest Road, Suite 555
  Hyattsville, MD 20782
  301-699-3835
  www.hiphomes.org

Springside Mortgage
1234 Main St
Baltimore, MD 21216

January 22, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Towson, MD 21204

Subject: PROVIDE PROOF OF INSURANCE for 4700 Oak Ridge Lane, Towson, MD 21204

Dear Mr. and Mrs. Jones:

Under the terms of your mortgage, you must maintain adequate homeowners' insurance coverage on the property referred to above. Our records show that your existing homeowners' insurance policy has expired or been cancelled, and we do not have evidence that you have obtained new coverage.

If you do not have insurance coverage, we have the right to purchase hazard insurance on your behalf and charge you for the cost. The insurance that we buy:

- Will cost you an estimated **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

In order to avoid being charged, you must show us evidence that you have your own insurance coverage for the property. If you do provide evidence of coverage, you will not be charged for any period during which you had your own insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

The total cost of the insurance we buy will include the premium and any applicable taxes or fees. If you have an escrow account, this cost may be charged to your escrow account. If you do not have an escrow account, we may establish an escrow account in accordance with the terms of your mortgage.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Baltimore, MD 21216 or send a fax to 410-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

Round 2:
Memphis, TN
February 29-March 1, 2012

Springside Mortgage

Mortgage Statement

Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Account Number	**1234567**
Payment Due Date	**4/1/2012**
Amount Due	**$2,849.42**

If payment is received after 4/15/12, $160 late fee will be charged.

Account Information

Property Address	4700 Oak Ridge Ln Memphis, TN 38109
Outstanding Principal	$264,776.43
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty	$3,500.00

Explanation of Amount Due

Principal	$386.46
Interest	$1,048.07
Escrow (for Taxes and Insurance)	$235.18
Regular Monthly Payment	**$1,669.71**
Total Fees Charged	$410.00
Overdue Payment	$769.71
Total Amount Due	**$2,849.42**

Contact Us

By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com

See back for mailing addresses

Transaction Activity (2/20 to 3/19)

Date	Description	Charges	Payments
3/13/12	Partial Payment Received		$900.00
3/16/12	Late Fee (charged because full payment not received by 3/15/2012)	$160.00	
3/19/12	Property Inspection Fee	$250.00	

Past Payments Breakdown

	Paid Last Month	Paid Year to Date
Principal	$0.00	$765.32
Interest	$0.00	$2,103.74
Escrow (Taxes and Insurance)	$0.00	$470.36
Fees	$0.00	$0.00
Partial Payment (Unapplied)	$900.00	$900.00
Total	**$900.00**	**$4,239.42**

Important Messages

If You Are Experiencing Financial Difficulty: If you would like mortgage counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. On the back of this page, we have also provided contact information for three state- or federally-approved counseling programs in your area.

We are pleased to have you as a Springside Mortgage customer. We are known throughout the country for the quality of our service and our dedication to providing financial security for our customers. We will do everything we can to make you feel at home, and to ensure you receive the friendly, professional service you deserve.

Springside Mortgage

Springside Mortgage
P.O. Box 11111
Memphis, TN 38101

Amount Due	
Due By 4/1/2012:	**$2,849.42**
$160 late fee will be charged after 4/15/12	
Please designate how you want us to apply any additional funds.	
Additional Principal	$.
Additional Escrow	$.
Total Amount Enclosed	**$.**

1234567 34571892 342359127

Payment Options

Springside Mortgage provides you the following options for making your mortgage loan payments.

- **Mail:** P.O. Box 11111, Memphis, TN 38101
- **Online***: www.springsidemortgage.com
- **Pay-by-phone****: 1-800-123-4567
- **Automatic Deduction:** Enroll at www.springsidemortgage.com
- **In Person:** At any Springside Mortgage branch

*Select "My Mortgage Info" from the "Online Services Menu."
** A fee may apply for this service.

Online Services

Springside Mortgage offers a variety of online services to help you better manage your mortgage loans including:

- Payments
- Electronic Statements
- "Notify me" alerts for payments received or escrow disbursements

You can also view your loan payment history, amortization schedule, principal balance, interest rate and escrow account activity
Simply visit www.springsidemortgage.com and select "My Mortgage Info" from the online services menu. For further assistance please contact us at 1-800-678-4567.

Payment Information

- **Additional Amount:** Please designate how you want additional funds to be applied; we will apply them as directed provided your account is current. If your account is current, undesignated funds will be applied per the terms of your mortgage loan documents. Regardless of the account status, principal prepayments will only be applied to your account if your contract allows for prepayments.
- **Please be prompt**. Payments must reach Springside Mortgage by the due date. **Your payment is credited on the day it is received at our payment center, not the day it is postmarked.** Payments made at a Springside Mortgage branch prior to the change of the business day will be credited the same day. Payments are not accepted at Springside Mortgage origination offices.
- If you are in bankruptcy or received a bankruptcy discharge of debt, this communication is not an attempt to collect a debt against you personally, but strictly for informational purposes only.
- **Notice of Negative Information**: We may report information about your account to the Credit Bureaus. Late payment, missed payments, other defaults, or bankruptcy filing on your account may be reflected in your credit report.

Mortgage Counseling and Assistance

If you would like counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. Below is contact information for the housing finance authority in your state and for three state- or federally-approved counseling programs in your area.

- **Tennessee Housing Development Agency**
  404 James Robertson Pkwy, Ste 1200
  Nashville, TN 37243-0900
  615-815-2200 or 1-800-228-THDA
  www.thda.org
- **Financial Counselors of America**
  3294 Poplar Ave, Ste 304
  Memphis, TN 38111
  901-722-5000 or 1-877-450-4404
  www.financialcounselors.org
- **Memphis Consumer Credit Education Association**
  1661 Aaron Brenner Dr, Ste 201
  Memphis, TN 38120
  901-321-6800
  www.mccea.net
- **Memphis Housing Resource Center**
  2400 Poplar Ave, Ste 220
  Memphis, TN 38112
  901-529-1151
  www.mhrc.info

Automated Account Information

Account information is easy to access through Springside Mortgage's Automated Phone Service by calling 877-555-9988 or 1-800-555-2222. Please have your loan number and the first five (5) digits of your Social Security Number to access this convenient service. Automated information is available Monday-Sunday 7:00 a.m. to 11:00 p.m., Eastern Time.

Consumer Complaints and Inquiries

- You can direct any complaints and inquiries to Springside Mortgage by referencing the "Contact Us" section on the first page of this statement.
- You have the right to file complaints about Springside Mortgage with your state banking department.

Service Fee Schedule (Unless Limited by State Law)*

Amortization Schedule: $25.00
Account History (per year): $10.00
Duplicate 1098/Escrow Analysis: $10.00
Verification of Mortgage: $20.00
Document Copies (per request): $20.00
Subsequent Payoff Statement: Varies
Automated Payment by Phone: $15.00
Fax Fee: Varies
Returned Check Fee: Varies
*May be subject to change

Important Springside Mortgage Contact Information

Payments:
P.O. Box 11111
Memphis, TN 38101
Correspondence Address:
P.O. Box 12111
Buffalo, NY 14240
Fax Numbers:
Fax payoff requests: 1-866-221-2222
Fax all other Customer Service requests: 1-866-555-5555
Overnight Mail:
1 Fountain Plaza
Buffalo, NY 14203
Questions about Insurance:
P.O. Box 32309
Springfield, OH 45501
Questions about Tax:
P.O. Box 209433
Fort Worth, TX 76161

Homeowners Insurance/Property Tax Information

- **Insurance Requirements:** The terms of your loan require that you maintain homeowners insurance coverage not less than the replacement value of your property. We suggest that you consult your insurance company to determine these coverage amounts. Flood Insurance is required for all properties located in a Special Flood Hazard Area as designated by FEMA.
- **Policy Information:** To protect our mutual interests, the mortgage clause of your policy must include the following: Springside Mortgage, its Successors and/or Assigns, Mortgage Loan #____, P.O. Box 392, Springfield, OH 20932. If you pay your own insurance, please ensure that you provide us with your current insurance information by visiting our website at www.mycoverageinfo.com. You may also mail or fax a copy of the declaration page to our office (Fax # 1-877-495-4455).
- **Damaged Property:** In the event of damage to your home, notify your insurance agent. After the claim has been filed, please contact us at 1-888-555-3434 so that we may guide you through this process.
- **Loans with Tax Escrow:** If your property taxes are paid from an escrow account with us and you receive a tax bill, please forward the bill immediately to the following address: Springside Mortgage, P.O. Box 30944, Fort Worth, TX 39393. Please be sure to write your loan number on the bill. It is no longer necessary to forward paid tax receipts on non-escrow accounts. For property-related tax questions please call 1-877-555-4444.

Springside Mortgage
1234 Main St
Memphis, TN 38101

February 20, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Changes to Your Mortgage Interest Rate and Payments on August 20, 2012

Under the terms of your Adjustable Rate Mortgage (ARM), you had a three-year period during which your interest rate stayed the same. That period ends on August 20, 2012, so on that date your interest rate may change. After that, your interest rate may change annually for the rest of your loan term. Any change in your interest rate may also change your mortgage payment.

	Current Rate and Monthly Payment	**Estimated New** Rate and Monthly Payment
Interest Rate	4.25%	5.75%
Total Monthly Payment	**$1,746.00**	**$2,463.00 (due September 1, 2012)**

Interest Rate: On August 20, 2012 and every year after that, we will calculate your interest rate by taking a published "index rate" and adding a certain number of percentage points, called the "margin." Under your loan agreement, your index rate is the 1-year LIBOR and your margin is 2.25%. The LIBOR index is published daily in the Wall Street Journal.

Rate Limits: Your rate can change each year by no more than 2.00%. Your rate cannot go higher than 11.625% over the life of the loan.

New Interest Rate and Monthly Payment: The table above shows our estimate of your new interest rate and new monthly payment. This estimate is based on today's LIBOR index, your margin of 2.25%, your current loan balance of $243,267 and your remaining loan term of 324 months. **However, if the LIBOR index has changed on August 20, your new interest rate and payment may be different from what is shown above.**

Possible Alternatives: If you seek an alternative to the upcoming changes to your interest rate and payment, the following options may be possible (most are subject to lender approval):

- Refinance your loan with us or another lender.
- Sell your home and use the proceeds to pay off your current loan.
- Modify your loan terms with us.
- Payment forbearance temporarily gives you more time to pay your monthly payment.
- Transfer ownership of the property directly to us in order to avoid foreclosure.

Prepayment Penalty: Keep in mind that if you pay off your loan, refinance or sell your home before June 1, 2012 you could be charged a penalty of up to $4,323.13.

If You Anticipate Problems Making Your Payments: Contact Springside Mortgage at 1-800-555-4567 as soon as possible. If you would like counseling or assistance, you can contact any of the following:

Federal and State Housing Finance Agencies:

- U.S. Department of Housing and Urban Development (HUD): For a list of counseling agencies or programs in your area, go to www.hud.gov or call 800-569-4287.

(Continued on other side)

- Tennessee Housing Development Agency
  404 James Robertson Pkwy, Ste 1200
  Nashville, TN 37243-0900
  615-815-2200 or 1-800-228-THDA
  www.thda.org

Federally- or State-Approved Counseling Agencies and Programs:

- Financial Counselors of America
  3294 Poplar Ave, Ste 304
  Memphis, TN 38111
  901-722-5000 or 1-877-450-4404
  www.financialcounselors.org

- Memphis Consumer Credit Education Association
  1661 Aaron Brenner Dr, Ste 201
  Memphis, TN 38120
  901-321-6800
  www.mccea.net

- Memphis Housing Resource Center
  2400 Poplar Ave, Ste 220
  Memphis, TN 38112
  901-529-1151
  www.mhrc.info

Springside Mortgage
1234 Main St
Memphis, TN 38101

February 22, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Subject: PLEASE PROVIDE PROOF OF INSURANCE for 4700 Oak Ridge Lane, Memphis, TN 38109

Dear Mr. and Mrs. Jones:

Our records show that your homeowners' insurance policy lapsed on February 20, 2012, and we do not have evidence that you have obtained new coverage. **Because insurance is required on your property, we may purchase insurance on your behalf.**

You should immediately purchase or renew your own insurance policy, because the insurance we purchase:

- Will cost you an estimated **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

If we purchase insurance on your behalf**,** you will have to pay us for any period during which you did not have insurance. However, we will not charge you for any period during which you can prove you had your own insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Memphis, TN 38101 or send a fax to 410-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

Springside Mortgage
1234 Main St
Memphis, TN 38101

February 22, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Memphis, TN 38109

Subject: PLEASE PROVIDE PROOF OF INSURANCE for 4700 Oak Ridge Lane, Memphis, TN 38109

Dear Mr. and Mrs. Jones:

Our records show that your homeowners' insurance policy lapsed on February 20, 2012, and we do not have evidence that you have obtained new coverage. **Because insurance is required on your property, we have purchased insurance on your behalf.**

You should immediately purchase or renew your own insurance policy, because the insurance we purchased:

- Will cost you **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

If you give us proof of insurance coverage**,** we will cancel our policy and will not charge you for any period during which you had your own insurance. However, you will have to pay us for any period during which you did not have insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Memphis, TN 38101 or send a fax to 410-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

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

Springside Mortgage

Mortgage Statement

Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Account Number	**1234567**
Payment Due Date	**4/1/2012**
Amount Due	**$4,339.13**

If payment is received after 4/15/12, $160 late fee will be charged.

Account Information

Property Address	4700 Oak Ridge Ln Los Angeles, CA 90010
Outstanding Principal	$264,776.43
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty	$3,500.00

Explanation of Amount Due

Principal	$386.46
Interest	$1,048.07
Impound	$235.18
Regular Monthly Payment	**$1,669.71**
Total Fees and Charges	$410.00
Overdue Payment	$2,259.42
Total Amount Due	**$4,339.13**

Contact Us

By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com

See back for mailing addresses

Delinquency Notice

You are late on your mortgage payments. Failure to bring your loan current may result in fees and foreclosure—the loss of your home. As of March 20, you are 49 days delinquent on your mortgage loan.

Recent Account History

- Payment due 12/1/11: Fully paid on time
- Payment due 1/1/12: Fully paid on 2/3/12
- Payment due 2/1/12: Unpaid balance of $589.71
- Payment due 3/1/12: Unpaid balance of $2,079.71
- Current payment due 4/1/12: $1,669.71
- **Total: $4,339.13 due. You must pay this amount to bring your loan current.**

Transaction Activity (2/20 to 3/19)

Date	Description	Charges	Payments
3/13/12	Partial Payment Received*		$1,000.00
3/16/12	Late Fee (charged because full payment not received by 3/15/2012)	$160.00	
3/19/12	Property Inspection Fee	$250.00	

Past Payments Breakdown

	Paid Last Month	Paid Year to Date
Principal	$0.00	$383.31
Interest	$0.00	$1,051.22
Impound	$0.00	$235.18
Fees	$0.00	$410.00
Partial Payment (Unapplied)*	$1,000.00	$1,490.00
Total	**$1,000.00**	**$3,569.71**

Important Messages

***Partial Payments:** Any partial payments that you make are not applied to your mortgage, but instead are held in a separate suspense account. If you pay the balance of a partial payment, the funds will then be applied to your mortgage.

Springside Mortgage

Springside Mortgage
P.O. Box 11111
Los Angeles, CA 90010

Amount Due		
Due By 4/1/2012:	**$4,339.13**	
$160 late fee will be charged after 4/15/12		
Please designate how you want us to apply any additional funds.		
Additional Principal	$	.
Additional Escrow	$	.
Total Amount Enclosed	**$**	**.**

1234567 34571892 342359127 DN

Payment Options

Springside Mortgage provides you the following options for making your mortgage loan payments.

- **Mail:** P.O. Box 11111, Los Angeles, CA 90010
- **Online***: www.springsidemortgage.com
- **Pay-by-phone****: 1-800-123-4567
- **Automatic Deduction:** Enroll at www.springsidemortgage.com
- **In Person:** At any Springside Mortgage branch

*Select "My Mortgage Info" from the "Online Services Menu."
** A fee may apply for this service.

Online Services

Springside Mortgage offers a variety of online services to help you better manage your mortgage loans including:

- Payments
- Electronic Statements
- "Notify me" alerts for payments received or escrow disbursements

You can also view your loan payment history, amortization schedule, principal balance, interest rate and escrow account activity Simply visit www.springsidemortgage.com and select "My Mortgage Info" from the online services menu. For further assistance please contact us at 1-800-678-4567.

Payment Information

- **Additional Amount:** Please designate how you want additional funds to be applied; we will apply them as directed provided your account is current. If your account is current, undesignated funds will be applied per the terms of your mortgage loan documents. Regardless of the account status, principal prepayments will only be applied to your account if your contract allows for prepayments.
- **Please be prompt**. Payments must reach Springside Mortgage by the due date. **Your payment is credited on the day it is received at our payment center, not the day it is postmarked.** Payments made at a Springside Mortgage branch prior to the change of the business day will be credited the same day. Payments are not accepted at Springside Mortgage origination offices.
- If you are in bankruptcy or received a bankruptcy discharge of debt, this communication is not an attempt to collect a debt against you personally, but strictly for informational purposes only.
- **Notice of Negative Information**: We may report information about your account to the Credit Bureaus. Late payment, missed payments, other defaults, or bankruptcy filing on your account may be reflected in your credit report.

Mortgage Counseling and Assistance

If you would like counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. Below is contact information for the housing finance authority in your state and for three state- or federally-approved counseling programs in your area.

- **California Department of Housing and Community Development**
  1800 3rd St
  Sacramento, CA 95811
  916-445-4782
  www.hcd.ca.gov
- **Consumer Credit Counseling Service of Orange County**
  2450 E. Lincoln
  Anaheim, CA 92806
  714-547-2227 or 866-784-2227
  www.cccsoc.org
- **Neighborhood Assistance Corporation of America – Los Angeles**
  241 South Market St
  Inglewood, CA 90301
  310-412-2600 or 888-297-5568
  www.naca.com
- **Los Angeles Neighborhood Housing Services, Inc.**
  3926 Wilshire Blvd, Suite 200
  Los Angeles, CA 90010
  213-381-2862 or 888-895-2467
  www.lahs.org

Automated Account Information

Account information is easy to access through Springside Mortgage's Automated Phone Service by calling 877-555-9988 or 1-800-555-2222. Please have your loan number and the first five (5) digits of your Social Security Number to access this convenient service. Automated information is available Monday-Sunday 7:00 a.m. to 11:00 p.m., Eastern Time.

Consumer Complaints and Inquiries

- You can direct any complaints and inquiries to Springside Mortgage by referencing the "Contact Us" section on the first page of this statement.
- You have the right to file complaints about Springside Mortgage with your state banking department.

Service Fee Schedule (Unless Limited by State Law)*

Amortization Schedule: $25.00
Account History (per year): $10.00
Duplicate 1098/Escrow Analysis: $10.00
Verification of Mortgage: $20.00
Document Copies (per request): $20.00
Subsequent Payoff Statement: Varies
Automated Payment by Phone: $15.00
Fax Fee: Varies
Returned Check Fee: Varies
*May be subject to change

Important Springside Mortgage Contact Information

Payments:
P.O. Box 11111
Los Angeles, CA 90010
Correspondence Address:
P.O. Box 12111
Buffalo, NY 14240
Fax Numbers:
Fax payoff requests: 1-866-221-2222
Fax all other Customer Service requests: 1-866-555-5555
Overnight Mail:
1 Fountain Plaza
Buffalo, NY 14203
Questions about Insurance:
P.O. Box 32309
Springfield, OH 45501
Questions about Tax:
P.O. Box 209433
Fort Worth, TX 76161

Homeowners Insurance/Property Tax Information

- **Insurance Requirements:** The terms of your loan require that you maintain homeowner's insurance coverage not less than the replacement value of your property. We suggest that you consult your insurance company to determine these coverage amounts. Flood Insurance is required for all properties located in a Special Flood Hazard Area as designated by FEMA.
- **Policy Information:** To protect our mutual interests, the mortgage clause of your policy must include the following: Springside Mortgage, its Successors and/or Assigns, Mortgage Loan #____, P.O. Box 392, Springfield, OH 20932. If you pay your own insurance, please ensure that you provide us with your current insurance information by visiting our website at www.mycoverageinfo.com. You may also mail or fax a copy of the declaration page to our office (Fax # 1-877-495-4455).
- **Damaged Property:** In the event of damage to your home, notify your insurance agent. After the claim has been filed, please contact us at 1-888-555-3434 so that we may guide you through this process.
- **Loans with Tax Escrow:** If your property taxes are paid from an escrow account with us and you receive a tax bill, please forward the bill immediately to the following address: Springside Mortgage, P.O. Box 30944, Fort Worth, TX 39393. Please be sure to write your loan number on the bill. It is no longer necessary to forward paid tax receipts on non-escrow accounts. For property-related tax questions please call 1-877-555-4444.

Springside Mortgage

Mortgage Statement

Statement Date: 3/20/2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Account Number		**1234567**
Payment Due Date		**4/1/2012**
Amount Due	**Option 1 (Full):**	**$1,829.71**
	Option 2 (Interest-Only):	**$1,443.25**
	Option 3 (Minimum):	**$1,156.43**

If payment is received after 4/15/12, $160 late fee will be charged.

Account Information

Property Address	4700 Oak Ridge Ln Los Angeles, CA 90010
Outstanding Principal	$260,000.00
Maturity Date	September 2039
Interest Rate (Until October 2012)	4.75%
Prepayment Penalty	$3,500.00

Contact Us

By Phone:	1-800-555-1234
Online:	www.springsidemortgage.com

See back for mailing addresses

Explanation of Amount Due

	Option 1 (Full)	Option 2 (Interest-Only)	Option 3 (Minimum)
Principal	$386.46	$0	$0
Interest	$1,048.07	$1,048.07	$761.25
Impound	$235.18	$235.18	$235.18
Regular Monthly Payment	**$1,669.71**	**$1,283.25**	**$996.43**
Total Fees and Charges	$160.00	$160.00	$160.00
Total Amount Due	**$1,829.71**	**$1,443.25**	**$1,156.43**
If you make this payment…	… your principal balance will decrease, and you will be closer to paying off your loan.	… your principal balance will stay the same, and you will not be closer to paying off your loan.	… **your principal balance will increase.** You will be borrowing more money and losing equity in your home.

Transaction Activity (2/20 to 3/19)

Date	Description	Charges	Payments
3/16/12	Late Fee (charged because payment was received after 3/15/2012)	$160.00	
3/19/12	Payment Received – Thank you		$1,669.71

Past Payments Breakdown

	Paid Last Month	Paid Year to Date
Principal	$384.93	$765.32
Interest	$1,049.60	$2,103.74
Impound	$235.18	$470.36
Fees	$0.00	$0.00
Total	**$1,669.71**	**$4,239.42**

Important Messages

If You Are Experiencing Financial Difficulty: See back for information about mortgage counseling or assistance.

Springside Mortgage

Springside Mortgage
P.O. Box 11111
Los Angeles, CA 90010

Amount Due		
Due By 4/1/2012:	❑ **Option 1 (Full):**	**$1,829.71**
	❑ **Option 2 (Interest-Only):**	**$1,443.25**
	❑ **Option 3 (Minimum):**	**$1,156.43**
$160 late fee will be charged after 4/15/12		
Additional Principal		$.
Total Amount Enclosed		**$.**

1234567 34571892 342359127 P

Payment Options

Springside Mortgage provides you the following options for making your mortgage loan payments.

- **Mail:** P.O. Box 11111, Los Angeles, CA 90010
- **Online***: www.springsidemortgage.com
- **Pay-by-phone****: 1-800-123-4567
- **Automatic Deduction:** Enroll at www.springsidemortgage.com
- **In Person:** At any Springside Mortgage branch

*Select "My Mortgage Info" from the "Online Services Menu."
** A fee may apply for this service.

Online Services

Springside Mortgage offers a variety of online services to help you better manage your mortgage loans including:

- Payments
- Electronic Statements
- "Notify me" alerts for payments received or escrow disbursements

You can also view your loan payment history, amortization schedule, principal balance, interest rate and escrow account activity Simply visit www.springsidemortgage.com and select "My Mortgage Info" from the online services menu. For further assistance please contact us at 1-800-678-4567.

Payment Information

- **Additional Amount:** Please designate how you want additional funds to be applied; we will apply them as directed provided your account is current. If your account is current, undesignated funds will be applied per the terms of your mortgage loan documents. Regardless of the account status, principal prepayments will only be applied to your account if your contract allows for prepayments.
- **Please be prompt**. Payments must reach Springside Mortgage by the due date. **Your payment is credited on the day it is received at our payment center, not the day it is postmarked.** Payments made at a Springside Mortgage branch prior to the change of the business day will be credited the same day. Payments are not accepted at Springside Mortgage origination offices.
- If you are in bankruptcy or received a bankruptcy discharge of debt, this communication is not an attempt to collect a debt against you personally, but strictly for informational purposes only.
- **Notice of Negative Information**: We may report information about your account to the Credit Bureaus. Late payment, missed payments, other defaults, or bankruptcy filing on your account may be reflected in your credit report.

Mortgage Counseling and Assistance

If you would like counseling or assistance, you can find a list of counselors in your area on the U.S. Department of Housing and Urban Development's website at www.hud.gov. Below is contact information for the housing finance authority in your state and for three state- or federally-approved counseling programs in your area.

- **California Department of Housing and Community Development**
  1800 3rd St
  Sacramento, CA 95811
  916-445-4782
  www.hcd.ca.gov
- **Consumer Credit Counseling Service of Orange County**
  2450 E. Lincoln
  Anaheim, CA 92806
  714-547-2227 or 866-784-2227
  www.cccsoc.org
- **Neighborhood Assistance Corporation of America – Los Angeles**
  241 South Market St
  Inglewood, CA 90301
  310-412-2600 or 888-297-5568
  www.naca.com
- **Los Angeles Neighborhood Housing Services, Inc.**
  3926 Wilshire Blvd, Suite 200
  Los Angeles, CA 90010
  213-381-2862 or 888-895-2467
  www.lahs.org

Automated Account Information

Account information is easy to access through Springside Mortgage's Automated Phone Service by calling 877-555-9988 or 1-800-555-2222. Please have your loan number and the first five (5) digits of your Social Security Number to access this convenient service. Automated information is available Monday-Sunday 7:00 a.m. to 11:00 p.m., Eastern Time.

Consumer Complaints and Inquiries

- You can direct any complaints and inquiries to Springside Mortgage by referencing the "Contact Us" section on the first page of this statement.
- You have the right to file complaints about Springside Mortgage with your state banking department.

Service Fee Schedule (Unless Limited by State Law)*

Amortization Schedule: $25.00
Account History (per year): $10.00
Duplicate 1098/Escrow Analysis: $10.00
Verification of Mortgage: $20.00
Document Copies (per request): $20.00
Subsequent Payoff Statement: Varies
Automated Payment by Phone: $15.00
Fax Fee: Varies
Returned Check Fee: Varies
*May be subject to change

Important Springside Mortgage Contact Information

Payments:
P.O. Box 11111
Los Angeles, CA 90010
Correspondence Address:
P.O. Box 12111
Buffalo, NY 14240
Fax Numbers:
Fax payoff requests: 1-866-221-2222
Fax all other Customer Service requests: 1-866-555-5555
Overnight Mail:
1 Fountain Plaza
Buffalo, NY 14203
Questions about Insurance:
P.O. Box 32309
Springfield, OH 45501
Questions about Tax:
P.O. Box 209433
Fort Worth, TX 76161

Homeowners Insurance/Property Tax Information

- **Insurance Requirements:** The terms of your loan require that you maintain homeowner's insurance coverage not less than the replacement value of your property. We suggest that you consult your insurance company to determine these coverage amounts. Flood Insurance is required for all properties located in a Special Flood Hazard Area as designated by FEMA.
- **Policy Information:** To protect our mutual interests, the mortgage clause of your policy must include the following: Springside Mortgage, its Successors and/or Assigns, Mortgage Loan #____, P.O. Box 392, Springfield, OH 20932. If you pay your own insurance, please ensure that you provide us with your current insurance information by visiting our website at www.mycoverageinfo.com. You may also mail or fax a copy of the declaration page to our office (Fax # 1-877-495-4455).
- **Damaged Property:** In the event of damage to your home, notify your insurance agent. After the claim has been filed, please contact us at 1-888-555-3434 so that we may guide you through this process.
- **Loans with Tax Escrow:** If your property taxes are paid from an escrow account with us and you receive a tax bill, please forward the bill immediately to the following address: Springside Mortgage, P.O. Box 30944, Fort Worth, TX 39393. Please be sure to write your loan number on the bill. It is no longer necessary to forward paid tax receipts on non-escrow accounts. For property-related tax questions please call 1-877-555-4444.

Springside Mortgage
1234 Main St
Los Angeles, CA 90010

March 29, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Changes to Your Mortgage Interest Rate and Payments on September 29, 2012

Under the terms of your Adjustable Rate Mortgage (ARM), you had a three-year period during which your interest rate stayed the same. That period ends on September 29, 2012, so on that date your interest rate may change. After that, your interest rate may change annually for the rest of your loan term. Any change in your interest rate may also change your mortgage payment. Also, as of September 29, 2012 your mortgage payment will include principal as well as interest.

	Current Rate and Monthly Payment	**Estimated New** Rate and Monthly Payment
Interest Rate	4.25%	6.25%
Principal	**- none -**	$1,556.14
Interest	$861.57	
Escrow (Taxes and Insurance)	$460.27	$502.67
Total Monthly Payment	**$1,321.84**	**$2,058.81 (due October 1, 2012)**

Interest Rate: On September 29, 2012 and every year after that, we will calculate your interest rate by taking a published "index rate" and adding a certain number of percentage points, called the "margin." Under your loan agreement, your index rate is the 1-year LIBOR and your margin is 2.25%. The LIBOR index is published daily in the Wall Street Journal.

Rate Limits: Your rate cannot go higher than 11.625% over the life of the loan. Your rate can change each year by no more than 2.00%. If not for this rate limit, your estimated rate on September 29 would be 1.00% higher. This additional amount may be applied to your interest rate when it adjusts again next year.

New Interest Rate and Monthly Payment: The table above shows our estimate of your new interest rate and new monthly payment. This estimate is based on today's LIBOR index, your margin of 2.25%, your current loan balance of $243,267 and your remaining loan term of 324 months. **However, if the LIBOR index has changed on September 29, your new interest rate and payment may be different from what is shown above.** Your new payment will cover all of your interest and some of your loan's principal, and therefore will reduce your loan balance.

Possible Alternatives: If you seek an alternative to the upcoming changes to your interest rate and payment, the following options may be possible (most are subject to lender approval):

- Refinance your loan with us or another lender.
- Sell your home and use the proceeds to pay off your current loan.
- Modify your loan terms with us.
- Payment forbearance temporarily gives you more time to pay your monthly payment.
- Transfer ownership of the property directly to us in order to avoid foreclosure.

Prepayment Penalty: Keep in mind that if you pay off your loan, refinance or sell your home before September 1, 2012 you could be charged a penalty of up to $4,323.13.

If You Anticipate Problems Making Your Payments: Contact Springside Mortgage at 1-800-555-4567 as soon as possible. If you would like counseling or assistance, you can contact any of the following:

(Continued on other side)

Federal and State Housing Finance Agencies:

- U.S. Department of Housing and Urban Development (HUD): For a list of counseling agencies or programs in your area, go to www.hud.gov or call 800-569-4287.

- California Department of Housing and Community Development
  1800 3rd St
  Sacramento, CA 95811
  916-445-4782
  www.hcd.ca.gov

Federally- or State-Approved Counseling Agencies and Programs:

- Consumer Credit Counseling Service of Orange County
  2450 E. Lincoln
  Anaheim, CA 92806
  714-547-2227 or 866-784-2227
  www.cccsoc.org

- Neighborhood Assistance Corporation of America – Los Angeles
  241 South Market St
  Inglewood, CA 90301
  310-412-2600 or 888-297-5568
  www.naca.com

- Los Angeles Neighborhood Housing Services, Inc.
  3926 Wilshire Blvd, Suite 200
  Los Angeles, CA 90010
  213-381-2862 or 888-895-2467
  www.lahs.org

Springside Mortgage
1234 Main St
Los Angeles, CA 90010

March 29, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Subject: PLEASE PROVIDE PROOF OF INSURANCE FOR 4700 Oak Ridge Lane, Los Angeles, CA 90010

Dear Mr. and Mrs. Jones:

Because we did not have evidence that you had hazard insurance on the property listed above, we purchased force-placed insurance coverage on your behalf, effective May 13, 2011. Before we charged you for this policy, we sent you two notices by mail asking you to provide us proof that you had your own hazard insurance coverage. We still do not have evidence that you have obtained your own coverage.

The policy that we purchased is scheduled to expire on May 12, 2012. **Because insurance is required on your property, we are going to renew the policy we obtained and charge the premium to you.**

You should immediately purchase your own insurance policy, because the insurance we purchased:

- Costs you **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

If you give us proof of insurance coverage at any time**,** we will cancel our policy and will not charge you for any period during which you had your own insurance. However, you will have to pay us for any period during which you did not have insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Los Angeles, CA 90010 or send a fax to 323-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

Springside Mortgage
1234 Main St
Los Angeles, CA 90010

March 29, 2012

Adam and Mary Jones
4700 Oak Ridge Ln
Los Angeles, CA 90010

Subject: SECOND AND FINAL NOTICE: PLEASE PROVIDE PROOF OF INSURANCE for 4700 Oak Ridge Lane, Los Angeles, CA 90010

Dear Mr. and Mrs. Jones:

This is your **second and final notice** that our records show that your homeowners' insurance policy lapsed on February 24, 2012. We still do not have evidence that you have obtained new coverage. **Because insurance is required on your property, we may purchase force-placed insurance on your behalf.**

You should immediately purchase or renew your own insurance policy, because the insurance we purchase:

- Will cost you an estimated **$2,100.00 per year**, which is probably more expensive than insurance you can buy yourself.
- **May not provide as much coverage** as an insurance policy you buy yourself.

If we purchase insurance on your behalf**,** you will have to pay us for any period during which you did not have insurance. However, if you give us proof of insurance at any time, we will not charge you for any period during which you can prove you had your own insurance.

You can show us that you have insurance by providing us with your insurance policy number, the identity of your insurance company or agent, and contact information for the insurance company or agent. You can also send us a copy of your insurance binder, certificate, or policy. You can send us this information by fax, mail, or email.

If you have any questions, please contact us at 1-800-123-4567 or service@springsidemortgage.com. You may also write to us at 1234 Main Street, Los Angeles, CA 90010 or send a fax to 323-555-9999, Attention: Customer Service.

Sincerely,

Jennifer Brown
Loan Officer

ICF International
9300 Lee Highway
Fairfax, VA 22031