Just do it … but differently

Consumer Information & the Mortgage Market
FTC- Bureau of Economics Conference
May 29, 2008
The single biggest problem with communication is the illusion that it has taken place.

—George Bernard Shaw (1856–1950)
Public Policy - what is a disclosure document?
Confusing is easy
Unclear is easy

CP2000
(Before)
Request for Cash, Medical, and Food Stamp Assistance (Before)
This is a multipurpose passenger vehicle which will handle and maneuver differently from an ordinary passenger car, in driving conditions which may occur on streets and highways and off road. As with other vehicles of this type, if you make sharp turns or abrupt maneuvers. The vehicle may roll over or may go out of control and crash. You should read driving guidelines and instructions in the Owner’s Manual, and WEAR YOUR SEAT BELTS AT ALL TIMES.

National Highway Traffic Safety Administration
Neat and tidy, but unclear is easy
**DISCLOSURES**

| Annual percentage rate (APR) for purchases | 17.74% variable. |
| Other APRs | Cash advance APR: 22.74% variable. Default APR: 31.74% variable. See explanation below.* |
| Variable rate information | Your APRs may vary each billing period. The purchase rate equals the U.S. Prime Rate** plus 9.99%. The cash advance rate equals the U.S. Prime Rate plus 14.99%, with a minimum cash advance rate of 19.99%. The default rate equals the U.S. Prime Rate plus up to 23.99%*** |
| Grace period for repayment of balances for purchases | Not less than 20 days if you pay your total new balance in full each billing period by the due date. |
| Method of computing the balance for purchases | Average daily balance (including new purchases). |
| Annual fees | Annual Membership Fee: $85. |
| Minimum finance charge | 50 cents. |
| Transaction fee for purchases made in a foreign currency | 3% of the amount of each foreign currency purchase after its conversion into U.S. dollars. |
| Transaction fee for cash advances: | 3% of the amount of each cash advance, $5 minimum. |
| Transaction fee for balance transfers: | 3% of the amount of each balance transfer, $5 minimum, $75 maximum. |
| Late fee: | $15 on balances up to $100; $29 on balances of $100 up to $1,000; and $39 on balances of $1,000 and over. |

* All your APRs may automatically increase up to the Default APR if you default under any Card Agreement that you have with us because you fail to make a payment to us when due, or you make a payment to us that is not honored.

** For each billing period we use the U.S. Prime Rate published in The Wall Street Journal two business days prior to the Statement/Closing Date for that billing period.

*** Factors considered in determining your default rate may include how long your account has been open, the timing or seriousness of a default, or other indications of account performance.

We apply your payments to low APR balances before higher APR balances. That means your savings will be reduced if you make transactions that are subject to higher APRs.

**Rates, fees, and terms may change:** We may change the rates, fees, and terms of your account at any time for any reason. These reasons may be based on information in your credit report, such as your failure to make payments to another creditor when due, amounts owed to other creditors, the number of credit accounts outstanding, or the number of credit inquiries. These reasons may also include competitive or market-related factors. If we make a change for any of these reasons, you will receive advance notice and a right to opt out in accordance with applicable law.
GOOD FAITH ESTIMATE

Lender: Acme Mortgage
Address: Wichita, KS 67220
Applicant: WJ Stock

Property Address: 3912 E 21st
Wichita, KS 67220

The information provided below reflects estimates of the charges which you are likely to incur at the settlement of your loan. The fees listed are estimates, based on the transactions you are likely to incur. The fees listed are estimates, based on the transactions you are likely to incur.

The numbers listed beside the estimates generally correspond to the numbers highlighted in the HUD-1 or HUD-1A settlement statement which you will be reviewing at settlement. The HUD-1 or HUD-1A settlement statement will show you the actual cost for each paid at settlement.

500 ITEMS ITEMED IN CONNECTION WITH LOAN

100 Title Charges:

1100 Closing or Escrow Fee

1110 Abstract of Title Search

1115 Title Examination

1120 Title Insurance

1130 Document Preparation Fee

1140 Document Preparation Fee

1150 Lender's Point of Use Fee

1160 Seller's Point of Use Fee

1170 Other

900 ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE

910 Interest

920 Mortgage Insurance Premium

930 Title Insurance

940 County Property Taxes

950 Flood Insurance

1000 REQUIRED DEPOSITS WITH LENDER:

1010 Hazard Insurance: 2 months, 1st 30

1020 Mortgage Insurance

1030 Tax & Auto: 2 months, 1st 30

1040 Flood Insurance

TOTAL ESTIMATES FOR LOANS OF:

$3,056.00

**This section is completed only if a particular provider of service is required. Listed below are providers of service which are not required to provide the services. The charges indicated in the Good Faith Estimate above are based upon the corresponding charge of the actual service provider.**

TOTAL MONTHLY PAYMENT:

Principal Interest

Real Estate Taxes

Hazard Insurance

Flood Insurance

Mortgage Insurance

Other

TOTAL MONTHLY PAYMENT

$711.17

CASH FROM BORROWER

$3,177.42

This Good Faith Estimate is being provided by a mortgage broker, and no lender has yet been obtained.
Simple, easy to read, visually compelling, understandable, and clear?

... not easy
but possible

CP2000 (After)
but possible

Request for Cash, Food Stamp, and Medical Assistance (After)
Prototype privacy notice  
(After)
Good Faith Estimate (After)

Understanding your estimated settlement charges

Your Loan Details
1. Our service charge
These charges are for the services we provide when we get and process this loan for you.

2. Your credit or charge for the specific interest rate chosen (points)
The credit or charge for the interest rate you have chosen is included in “Our service charge.” (See Item 1 above.)

3. You receive a credit of $ for the interest rate of %

4. The credit reduces your upfront charges. See the table on page 2 to see how you can change this charge or credit by choosing a different interest rate.

Your Charges for All Other Settlement Services
3. Required services that we select
These charges are for services we require to complete your settlement. We will advise you of the procedures of these services.

4. Title service and lender’s title insurance
This charge includes the services of a title agent, for example, and title insurance to protect the lender, if required.

5. Required services that you can shop for
These charges are for other services that are required to complete your settlement. We can tell you to providers of these services or you can shop for them yourself. Our estimates for providing these services are below.

6. Government recording and transfer charges
This includes state and local charges on mortgages and home sales.

7. Escrow or escrow
This charge is held in an escrow account to pay recurring charges on your property, such as property taxes or insurance.

8. Maximum charges
This charge is for the daily interest on your loan from the day of your settlement and the first day of the next month or the last day of your normal mortgage payment cycle. For example, the amount is $ per day for days after your closing date.

9. Homeowners’ insurance
This charge is for the insurance you must buy for this property to protect from fire, theft, etc.

Optional homeowners’ insurance
This charge is for added insurance you can choose to buy to protect your full title defects.

Your Charges for All Other Settlement Services
$
The question is . . .

How?
“The significant problems we face cannot be solved at the same level of thinking we were at when we created them.”

-Albert Einstein
Paradigm shift

Build the right team
- Use multiple voices, expertise, opinions, information sources to arbitrate the right technical content
Clarify the disclosure’s purpose

- Don’t do anything until the team understands the document’s purpose, then proceed
Paradigm shift

Clarify

Decide on the desired action for the document

- Don’t do anything until the team knows what they want consumers to do with the information
Paradigm shift

Use a rigorous process

- Consumer test
- Develop content based on consumer needs NOT policy makers’
- Blast assumptions

Commit
Paradigm shift

Innovate
- Whole-to-part
- Visual
- Keep it simple
- Remove words
- Get out of the way

Commit
Paradigm shift

Go for neutral
- Give consumers the information clearly
- Respect that they’ll do what they need/want with the clear information

Commit
The Impact

✓ Understanding
✓ Clarity
✓ Trust
✓ Honesty
✓ Simplicity
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