Summary of Findings: Design and Testing of Periodic Statements for Home Equity Lines of Credit, Disclosures about Changes to Home Equity Line Credit Limits, and Disclosures about Credit Protection Products

July 2010

Submitted to:
Board of Governors of the
Federal Reserve System

Submitted by:

ICF MACRO
an ICF International Company

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Calverton, Maryland 20705

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Executive Summary

Background

In 1968, Congress enacted the Truth in Lending Act (TILA) to protect consumers by requiring creditors to provide key pieces of information to consumers at various points in time. Congress assigned the Federal Reserve Board (the Board) the responsibility of implementing TILA, which the Board currently does through Regulation Z.

Since 2004, the Board has been in the process of reviewing Regulation Z to determine whether revisions are appropriate. One of the goals of this review is to ensure that disclosures that are required by TILA are structured and worded in a way that consumers are most likely to understand and use in their financial decision-making.

The Board contracted with ICF Macro in 2006 to assist with its review and revision of TILA disclosure regulations. ICF Macro is a research and evaluation company with expertise in the design and cognitive testing of effective consumer communication materials. ICF Macro worked with the Board on its review of credit card disclosures and is currently contributing to its review of disclosures for closed-end mortgages and home equity lines of credit (HELOCs).

This report describes ICF Macro's work on three types of disclosures: a) periodic statements for HELOCs; b) disclosures related to changes in credit limits for HELOCs; and c) disclosures related to credit insurance for HELOCs and closed-end mortgages.

Since August 2009, ICF Macro has conducted four rounds of one-on-one cognitive interviews on these topics with a total of 39 participants. For each round, ICF Macro developed a set of model disclosure forms to be tested. Interview participants were asked to review these disclosures and describe their reactions, and were then asked a series of questions designed to test their understanding of the content. Data were collected on which elements and features of each disclosure were most successful in communicating information clearly and effectively. The findings from each round of interviews were incorporated in revisions to the model disclosures for the following round of testing.

The findings from these interviews have informed the Board's proposed revisions to Regulation Z rules, which the Board intends to publish for public comment in July 2010.

Summary of Methodology

Testing of the disclosures was carried out through four rounds of interviews. Not all types of disclosures were tested in each round; periodic statements were tested in three of the four rounds, while notices related to changes in credit limits and notices related to credit insurance were tested in two rounds each. Before each round of interviews, ICF Macro developed model disclosures for testing. In some cases, multiple versions of each type of disclosure were developed so that the impact of varying language or format could be studied. Board staff attended all rounds of testing. After each round, ICF Macro briefed Board staff on key findings, as well as their implications for disclosure design and layout.

Participants in each round were recruited by telephone using a structured screening instrument in order to ensure the selection of a range of participants of different gender, age, ethnicity, and other characteristics. Participants were disqualified if they worked for a financial institution, or in the real estate or mortgage industry.

The first three rounds tested disclosures that would be given to borrowers opening a HELOC. Most participants who were recruited for these rounds either had a HELOC or had considered opening a HELOC in the past five years, although a few did not have any home equity product. The fourth round tested a credit insurance disclosure that would be given to borrowers who were refinancing a loan with their original creditor. For this round, participants must have had obtained a mortgage in the past two years.

Individual interviews were approximately 75 minutes long. While the interview guide varied between rounds, the general structure of these interviews was very similar. Participants were given a disclosure and asked to "think aloud" while they reviewed the document, indicating whenever they found something surprising, interesting, or confusing. Following this "think aloud" process, participants were asked specific questions about the information on the disclosure to determine how well they could find and interpret the content. The participants were then given a new disclosure to review and the interviewer took them through the same process.

Summary of Key Findings

Periodic Statements for Home Equity Lines of Credit

- Periodic statements were tested in a total of 31 interviews over three rounds. Participants in these interviews were shown two versions of periodic statements. In the first version, fees in the transaction list were separated from other transactions using a subcategory titled "Fees." In the second version, the fees were listed chronologically, along with all other transactions. Overwhelmingly, participants indicated that they preferred to have fees broken out as a subcategory on the transaction list, because this made it easier to notice and identify specific charges. These findings are consistent with the Board's August 2009 HELOC proposed rules to require that fees must be broken out in this way on periodic statements for HELOCs, which is also consistent with the Regulation Z requirements for credit card accounts that the Board published in 2009.

- Most participants did not understand how a creditor would calculate interest charges, and even fewer understood the meaning of the daily interest rates shown on the statement. Participants overwhelmingly indicated that they would be unlikely to ever use this information to calculate interest charges on their own, even if they questioned the amount of interest they were charged. These findings are consistent with the Board's August 2009 HELOC proposed rules to no longer require that daily interest rates be provided on periodic statements for HELOCs, which is also consistent with the Regulation Z requirements for credit card accounts.

- When shown the fee-inclusive annual percentage rate (APR) on the periodic statement, only two of the 31 participants were able to explain what the term meant—even after being specifically directed to read the explanation provided on the statement. Only one of the 31 participants indicated that he would ever use this information, and the example that one participant provided was an inappropriate use of the fee-inclusive APR. These findings are consistent with the Board's August 2009 HELOC proposed rules to amend Regulation Z to no longer require that fee-inclusive APR be provided on periodic statements for HELOCs, which is also consistent with the Regulation Z requirements for credit card accounts.

Disclosures Related to Changes in Credit Limits

- Disclosures related to changes in credit limits for HELOCs were tested in two rounds of interviews with a total of 21 participants. Participants in the first round of testing were presented with a disclosure that would be provided to an existing HELOC customer if the creditor decided to reduce the amount of that participant's line of credit.[1] The notice showed a list of possible reasons why the credit limit might have been reduced, with one option checked to indicate that the value of the property securing the loan had declined significantly. In the first round of testing, several participants were confused by the "checklist" format used on the notice. For example, one participant thought that the blank lines next to other options meant that he was supposed to complete this information himself, while another thought the lines meant that the creditor would later provide additional information. Because of this confusion, ICF Macro and Board staff decided to design and test a version of the form that did not include a checklist, but instead described only the specific reason for the reduction in the credit limit.

- In the second round of testing, the notice of reduction in credit limit was tested again, along with a second notice informing participants that a request for reinstatement of the original credit limit was denied. Both of these disclosures did not show a checklist of possible reasons for the creditor's action, but instead described the specific reason that was relevant. Participants found these forms easier to understand than the first version that included a checklist.

Credit Insurance Disclosures

- Credit insurance disclosures were tested in a total of 18 interviews over two rounds. In the first round of testing, participants' understanding of the cost of this coverage and the maximum benefit amount was low. On the disclosure tested in that round, the cost of the product was disclosed on a unit-cost basis, as is permitted in the current regulation. Even when provided with a calculator, only a few participants could correctly calculate the cost. The maximum benefit was disclosed at the bottom of the form, by the signature line, but only half of the participants understood that their benefits would be capped and would not pay off the outstanding balance on their account.

- To make the disclosure easier to read and comprehend, ICF Macro and Board staff decided to present the information in a tabular format based on previous testing of other financial disclosures, such as HELOC disclosures, rescission notices and description of checking account overdraft policies.[2] In addition, ICF Macro and Board staff decided to disclose the cost of the product as a dollar figure rather than as a unit cost.

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[1] This notice included model clause G-23(A) that was published with the Board's proposed HELOC rules in 2009.

[2] Findings on these other disclosures have been reported to the Board in separate reports; see *Design and Testing of Truth in Lending Disclosures for Home Equity Lines of Credit,* (available at http://www.federalreserve.gov/boarddocs/meetings/2009/20090723/Full%20HELOC_Macro%20Report.pdf), *Design and Testing of Rescission Notices* (submitted July 2010), and *Design and Testing of Overdraft Disclosures: Phase Two* (available at http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20091112a4.pdf).

- In the second round of testing participants were shown a disclosure that provided information about credit insurance in a table that connected questions about the product in the left column to answers about the product in the right column. All participants in this round understood both the cost of the product disclosed as a dollar figure and the maximum benefit. Therefore, the Board is proposing to amend Regulation Z to require creditors to disclose the cost of the product as a dollar figure and the maximum benefit, and proposing model forms with a tabular format.

Chapter I: Introduction

Background

In 1968, Congress enacted the Truth in Lending Act (TILA) to protect consumers by requiring creditors to provide key pieces of information to consumers at various points in time. Congress assigned the Federal Reserve Board (the Board) the responsibility of implementing TILA, which the Board currently does through Regulation Z.

Since 2004, the Board has been in the process of reviewing Regulation Z to determine whether revisions are appropriate. One of the goals of this review is to ensure that the disclosures that are required by TILA are structured and worded in a way that consumers are most likely to understand and use in their financial decision-making.

The Board contracted with ICF Macro in 2006 to assist with its review and revision of TILA disclosure regulations. ICF Macro is a research and evaluation company with expertise in the design and cognitive testing of effective consumer communication materials. ICF Macro worked with the Board on its review of credit card disclosures and is currently contributing to its review of disclosures for closed-end mortgages and home equity lines of credit (HELOCs).

This report describes ICF Macro's work on three types of disclosures:

- **Periodic statements for HELOCs.** Regulation Z currently requires creditors to provide periodic statements for HELOCs. In August 2009, the Board proposed certain formatting and other changes to periodic statements, such as eliminating the requirements to disclose the effective annual percentage rate (APR) and requiring disclosure of the total interest and total fees for both the statement period and the year to date. The proposal included sample periodic statements illustrating the proposed changes.

- **Disclosures related to changes in credit limit for HELOCs.** Regulation Z currently requires creditors to notify consumers when a creditor temporarily suspends advances on a HELOC or reduces the credit limit. The regulation does not require disclosure when a creditor denies a consumer's request to reinstate advances or the previous credit limit, or when a creditor permanently terminates an account. In August 2009, the Board proposed certain changes to the disclosure requirements related to suspension of HELOC advances and reduction of the credit limit, and proposed to add requirements to disclose account terminations and denials of reinstatements.

- **Disclosures related to credit insurance products.** Regulation Z requires creditors to provide certain disclosures for credit insurance, debt cancellation coverage, or debt suspension coverage written in connection with the credit transaction. In August 2009, the Board proposed to amend Regulation Z to require creditors to provide revised disclosures related to the optional nature of the product, and to add certain other disclosures such as eligibility restrictions.

Since August 2009, ICF Macro has conducted four rounds of one-on-one cognitive interviews on these topics with a total of 39 participants. For each round, ICF Macro developed a set of model disclosure forms to be tested. Interview participants were asked to review these disclosures and describe their reactions, and were then asked a series of questions designed to test their understanding of the content. Data were collected on which elements and features of each disclosure were most successful in communicating information clearly and effectively. The findings from each round of interviews were incorporated in revisions to the model disclosures for the following round of testing.

The findings from these interviews have informed the Board's proposed revisions to Regulation Z rules, which the Board intends to publish for public comment in July 2010.

Summary of Methodology

Testing of the disclosures was carried out through four rounds of interviews, as shown in Table 1. As shown in the table, different types of disclosures were tested in each round.[3] Before each round of interviews, ICF Macro developed model disclosures for testing. In some cases, multiple versions of each type of disclosure were developed so that the impact of varying language or format could be studied. Board staff attended all rounds of testing. After each round, ICF Macro briefed Board staff on key findings, as well as their implications for disclosure design and layout.

Table 1: Timeline of Cognitive Testing

	Location	Dates	Number of Interviews	Disclosures Tested
Round 1	Bethesda, MD	November 4–5, 2009	10	▪ Periodic statements ▪ Disclosures related to changes in credit limit
Round 2	Tampa, FL	January 19–20, 2010	11	▪ Periodic statements ▪ Disclosures related to changes in credit limit
Round 3	Phoenix, AZ	March 23–24, 2010	10	▪ Periodic statements ▪ Credit insurance disclosures
Round 4	Memphis, TN	April 16, 2010	8	▪ Credit insurance disclosures

Participants in each round were recruited by telephone using a structured screening instrument in order to ensure the selection of a range of participants of different gender, age, ethnicity, and other characteristics. Participants were disqualified if they worked for a financial institution, or in the real estate or mortgage industry.

The first three rounds tested disclosures that would be given to borrowers opening a HELOC. Most participants who were recruited for these rounds either had a HELOC or had considered opening a HELOC in the past five years, although a few did not have any home equity product. A sample recruitment screening instrument from the first three rounds is included as Appendix A of this report.

The fourth round tested a credit insurance disclosure that would be given to borrowers who were refinancing a loan with their original creditor. For this round, participants must have had obtained a

[3] In these four rounds of interviews ICF Macro also tested revised rescission notices, disclosures informing consumers of their right to cancel a HELOC or refinanced mortgage. Findings related to rescission notices are being described in a separate report to the Board (see *Summary of Findings: Design and Testing of Rescission Notices*, submitted in July 2010).

mortgage in the past two years. The screening instrument used in this round is included as Appendix B of this report. A summary of the participants' background and demographic information from all four rounds is provided as Appendix C of this report.

Individual interviews were approximately 75 minutes long. While the interview guide varied between rounds, the general structure of these interviews was very similar. Participants were given a disclosure and asked to "think aloud" while they reviewed the document, indicating whenever they found something surprising, interesting, or confusing. Following this "think aloud" process, participants were asked specific questions about the information on the disclosure to determine how well they could find and interpret the content. The participants were then given a new disclosure to review and the interviewer took them through the same process.

Chapter II: Guiding Principles for Disclosure Design

ICF Macro's design of revised disclosures for the Board is based on findings from cognitive testing. This reliance on direct consumer feedback is an important strategy for ensuring that disclosure forms like those described in this report are useful and understandable to their intended audiences. At the same time, there are a number of general principles to which ICF Macro's designers try to adhere whenever they engage in such projects. Relevant principles to this project included the following:

- **Use plain language.** Jargon and technical language should be avoided whenever possible, and replaced with words that are more easily understood by consumers. The use of simple language is particularly important in the context of disclosures, because consumers who are at the greatest risk of being taken advantage of are often those with lower literacy levels. While readability metrics (such as the "grade level" of the writing) can be useful in this respect, the best way to determine whether language is truly understandable is through direct consumer testing.

- **Prioritize information, and structure disclosures so that the most important information for consumers is easiest to find.** Consumers frequently do not read disclosures carefully; those who review them often only skim them quickly to look for a few key pieces of information. If consumers cannot quickly find the information they are looking for, they are likely to become frustrated and give up. It is important to identify the most important pieces of information on the form for consumers, so that these items can be most prominent on the disclosure.

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

- **Build upon prior research whenever possible.** While each type of disclosure is different, findings from cognitive testing can often translate between different documents. The applicability of a previously tested disclosure format to a new situation should always be confirmed through cognitive testing, but the previously tested format often provides a useful starting point. For example, the tabular format of one of the credit insurance disclosures that were tested was based on previous testing of other financial disclosures, such as HELOC disclosures, rescission notices, and description of checking account overdraft policies.[4]

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[4] Findings on these other disclosures have been reported to the Board in separate reports; see, *Design and Testing of Truth in Lending Disclosures for Home Equity Lines of Credit* (available at http://www.federalreserve.gov/boarddocs/meetings/2009/20090723/Full%20HELOC_Macro%20Report.pdf), *Design and Testing of Rescission Notices* (submitted July 2010), and *Design and Testing of Overdraft Disclosures: Phase Two* (available at http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20091112a4.pdf).

Chapter III: Testing of Periodic Statements

Interviews in Bethesda, MD (November 2009)

Periodic statements for HELOCs were first tested in a round of 10 cognitive interviews in Bethesda, MD on November 4 and 5, 2009. In this round, participants were shown two different versions of a periodic statement for a HELOC. Both versions contained a summary of account activity, payment information, a list of transactions, information about how interest was calculated and about the fee-inclusive APR. These two forms (referred to as PS-1 and PS-2) were almost identical, except for the list of transactions: the fees on PS-1 were separated from other transactions using a subcategory titled "Fees," while the fees on PS-2 were listed chronologically along with all other transactions.

Participants were shown both PS-1 and PS-2, with half of the participants seeing PS-1 first and the other half seeing PS-2 first. They were asked to review each form while thinking aloud, and were then asked to answer a series of questions to test their understanding of the content.

PS-1 and PS-2 are provided in Appendix D of this report.

Key Interview Findings

Prior Experience with HELOCs

- Eight of the 10 participants had obtained HELOCs, while one said that she had applied for a HELOC but was turned down because of her financial status.
- All the participants who had HELOCs said that the process of obtaining a HELOC was relatively easy.

Review of Periodic Statements (PS-1 and PS-2)

Initial Review of Statements

- Almost all participants indicated that they do not closely or carefully read periodic statements on their credit accounts, including HELOCs. Most either said that they glance quickly at their statements, or that they file them without looking at them at all. Only one indicated that he reads his periodic statements carefully each month.
- When asked to identify what they consider the most important information on the periodic statement, participants most commonly answered that they look for the following:
    - Was my last payment received?
    - When is my next payment due?
    - What is the minimum required payment?
    - What fees was I charged?
    - What is my current interest rate?
    - What transactions have taken place?

- After reviewing the first periodic statement they were shown, all participants were able to correctly identify their current balance; the amount of their last payment; the number and total amount of fees they were charged, and how much interest they were charged.

Understanding of Calculation of Interest

- When participants were asked what they would do if they thought the amount of interest charged was incorrect, half said that they would call the creditor for an explanation. Two said that they would assume their interest rate had changed, while two others indicated that they would look at previous statements to see if they could figure out what happened. All said that it was very unlikely they would ever try to calculate the interest charges themselves to double-check the amount on the statement.

- One participant was able to describe accurately how the creditor calculates interest rates, while two others said that interest was calculated "from the APR." The remaining participants, however, were unable to describe how the creditor calculated interest charges.

- The back of the periodic statement provided a very detailed description of how the creditor calculates interest charges. However, only one participant looked at the back of the statement at any point in the interview, and she did not read the description provided there.

- While looking at the statement, eight participants were able to correctly identify their interest rate for fixed-rate advances. One confused the fee-inclusive APR with the interest rate, while another did not seem to understand what an interest rate was.

- Most participants did not understand what the daily interest rates represent and how they relate to the APR. When asked how they would use the daily interest rates provided on the statement, nine of the 10 participants indicated that they would not. The remaining participant said that he would use the rates to "look for a trend to see if interest rates are increasing"—apparently not realizing that the annual rates would be just as useful for this purpose.

Understanding and Perceived Usefulness of the Fee-Inclusive APR

- Only two of the 10 participants understood the meaning of the fee-inclusive APR.[5] Others were generally confused by the term, and could not explain how it differed from the APR.

- Of all 10 participants, only one could envision any situation in which he would use the fee-inclusive APR; others said they would not find this information useful. The one participant who said he would use the fee-inclusive APR indicated that he would use it to determine which balance to pay down—which would not be an appropriate use of the information.

Comparison of PS-1 and PS-2

- Nine of the 10 participants preferred having the fees broken out separately on the transaction list, as was done in PS-1. These participants generally said that they found this format clearer, and that it made the fees more prominent and easier to identify. The remaining participant had no preference between PS-1 and PS-2.

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[5] Participants in all rounds were considered to "understand" the fee-inclusive APR if they were able to answer a short series of questions about it, such as why the fee-inclusive APR was higher than the APR for fixed-rate advances, why the two terms were the same for variable rate advances, and what the fee-inclusive APR would be the following month if no more fixed-rate advances were taken.

Subsequent Design Decisions

Participants in this round strongly preferred having the fees broken out into a separate category on the transaction list, as was done in PS-1.

Participants did not understand how the creditor would calculate their interest charges, and did not understand the daily interest rates shown on the statement. They also indicated that they would be extremely unlikely to ever use this information to calculate interest charges on their own.

Almost all participants did not understand the fee-inclusive APR. One indicated that he would find this information useful, but the way he proposed using the information would be inappropriate.

No significant changes were made to the forms following this round. However, ICF Macro and Board staff made the decision to test the same forms again to see if participants' responses would be similar.

Interviews in Tampa, FL (January 2010)

Periodic statements for HELOCs were tested again in 11 interviews conducted in Tampa, FL on January 19 and 20, 2010. As in the first round, participants were shown two different versions of a periodic statement for a HELOC. These versions (referred to as PS-3 and PS-4) were identical to PS-1 and PS-2, except that the dates on the statement were changed. Again, PS-3 and PS-4 were exactly the same, except for the list of transactions—the fees on PS-3 were separated from other transactions using a subcategory titled "Fees," while the fees on PS-4 were listed chronologically along with all other transactions.

Participants were shown both PS-3 and PS-4, with half of the participants seeing PS-3 first and the other half seeing PS-4 first. They were asked to review each form while thinking aloud, and were then asked to answer a series of questions to test their understanding of the content.

PS-3 and PS-4 are provided in Appendix D of this report.

Key Interview Findings

Prior Experience with HELOCs

- Seven of the 11 participants had obtained HELOCs. Two had home equity loans, but had considered getting a HELOC instead. One did not have a HELOC or a home equity loan; this participant considered getting a home equity loan, but instead refinanced the first mortgage and took cash out in connection with that refinancing. The remaining participant was unsure of whether he had a HELOC or a home equity loan.
- All the participants who had HELOCs said that the process of obtaining a HELOC was relatively easy.

Review of Periodic Statements (PS-3 and PS-4)

Initial Review of Statements

- Only two of the 11 participants said that they closely or carefully read periodic statements on their credit accounts, including HELOCs. Most said that they tend to glance at the statements and look for the balance, due date, minimum payment, and whether or not they had taken out any funds that month.

- When asked to identify what they consider the most important information on the periodic statement, participants' most common responses were the same as in the previous round:
  - Was my last payment received?
  - When is my next payment due?
  - What is the minimum required payment?
  - What fees was I charged?
  - What is my current interest rate?
  - What transactions have taken place?
- After reviewing the first periodic statement they were shown, all participants were able to correctly identify their current balance; the amount of their last payment; the number and total amount of fees they were charged, and how much interest they were charged.

Understanding of Calculation of Interest

- When participants were asked what they would do if they thought the amount of interest charged was incorrect, five of the 11 said that they would call the creditor for an explanation. One said she would try to use a calculator to check whether the interest charges were correct, but she could not explain what calculation she would use. One person just said he would be "unhappy," but would probably do nothing.
- Only one participant was able to describe accurately how the creditor calculates interest charges; most stated bluntly that they did not know. None of the participants referred to the back of the statement, which included a description of how the creditor calculates interest rates. Several participants commented that knowing how creditors calculate their interest charges would not be useful to them, because they would be unlikely to ever use this information to calculate charges on their own.
- While looking at the statement, only five of the 11 participants were able to correctly identify their interest rate for fixed-rate advances. One participant confused the fee-inclusive APR with the interest rate; the others indicated that they did not know what their interest rate was.
- When the "daily interest rates" on the statement were pointed out to participants, only two of the 11 were able to explain what these rates were or how they were calculated. When asked how they would use the daily interest rate information, all 11 participants said that they would not use it.

Understanding and Perceived Usefulness of the Fee-Inclusive APR

- None of the participants understood the meaning of the fee-inclusive APR; most were very confused and indicated that they had no idea how this term differed from the APR.
- None of the participants thought they would use the fee-inclusive APR for any purpose (one participant was not sure if he would use it or not, or how he would use it).

Comparison of PS-3 and PS-4

- Ten of the 11 participants said that they preferred PS-3, which separates the fees into its own subcategory. They said that this made it easier for them to find the fees charged for that period.

Subsequent Design Decisions

- Results in this round were very similar to those from the first round of testing. Participants continued to prefer the breakout of fees into its own category, as on PS-3. They generally did not understand how a creditor would calculate interest charges and did not understand the "daily interest rates" provided on the statement, but also indicated that they would be very unlikely to ever use this information to calculate interest charges. All participants did not understand the fee-inclusive APR and indicated that they would not find it useful.

- No revisions were made to these forms following this round of testing; the decision was instead made by ICF Macro and Board staff to test the same forms again in the following round to verify these results.

Interviews in Phoenix, AZ (March 2010)

A third round of 10 cognitive interviews was conducted in Phoenix, AZ on March 23 and 24, 2010. Participants in this round were shown the same two periodic statements (PS-3 and PS-4) that were used in the previous round of testing in Tampa, FL. Again, PS-3 and PS-4 were exactly the same, except for the list of transactions—the fees on PS-3 were separated from other transactions using a subcategory titled "Fees," while the fees on PS-4 were listed chronologically along with all other transactions.

As in the previous round, participants were shown both PS-3 and PS-4, with half of the participants seeing PS-3 first and the other half seeing PS-4 first. They were asked to review each form while thinking aloud, and were then asked to answer a series of questions to test their understanding of the content.

Key Interview Findings

Prior Experience with HELOCs

- Eight of the 10 participants had previously obtained HELOCs. Of these eight, all indicated that they found the process of obtaining a HELOC to be relatively easy.

Review of Periodic Statements (PS-3 and PS-4)

Initial Review of Statements

- Participants who had HELOCs were divided on how closely they read the periodic statements they receive from their creditors. Half indicated that they read these statements carefully each month, while the other half said that they look at them only briefly, if at all. As in previous rounds, those who said they look at their statements only briefly indicated that they are most interested in the balance, the due date, and the amount of the next payment.

- After reviewing the periodic statement, all participants were able to correctly identify their current balance, the amount of their last payment, and the number of fees they were charged. Eight of the 10 participants were able to identify the total amount of the fees they had been charged, and eight were able to identify the amount of interest they were charged.

Understanding of Calculation of Interest

- When asked what they would do if they thought the amount of interest they had been charged was incorrect, most participants indicated that they would call their creditor. Three said that they would try to calculate the amount of interest they owed themselves, although only one of the three was able to give even a basic description of how they might do so. One participant said that in this situation there would be "nothing [he] could do."

- Three participants were able to correctly identify the interest rate they were being charged on fixed-rate advances. Most participants indicated that they did not know; one incorrectly stated her fixed-rate balance rather than their interest rate.

- Two participants were able to provide a basic explanation for what is meant by "daily interest rate"; others indicated that they did not know what that term meant. None of the participants believed there was any situation in which they would use this information.

Understanding and Perceived Usefulness of the Fee-Inclusive APR

- As in the previous round, none of the participants understood the fee-inclusive APR, even after being prompted to read the explanation provided on the statement.

- As in previous rounds, none of the participants thought there was any situation in which they would use the fee-inclusive APR.

Comparison of PS-3 and PS-4

- All but one participant preferred the structure of the transaction list provided on PS-3 to that of PS-4 because they felt it was clearer to have the fees broken out separately. The remaining participant did not express a preference between the two.

Subsequent Design Decisions

- Results in this round were very similar to those from the first two rounds of testing. Participants continued to strongly prefer the breakout of fees into its own category in the transaction list, as on PS-3. They generally did not understand how a creditor would calculate interest charges and did not understand the "daily interest rates" provided on the statement, but they also indicated that they would be very unlikely to ever use this information to calculate their own charges. Participants continued to struggle to understand the fee-inclusive APR, and all indicated that there was no situation in which they would use this information.

- These findings are consistent with the Regulation Z requirements for credit cards that the Board published in 2009 and support the Board's August 2009 HELOC proposal to:

  - Require disclosure of fees under a separate heading in the transaction list (as shown on PS-1 and PS-3), as was clearly preferred by participants;

  - Not require disclosure of daily interest rates, because few participants understood them and even fewer indicated they would use them; and

  - Not require disclosure of a fee-inclusive APR, because participants had very little understanding of this term, did not find it useful, and may confuse it with their interest rates.

Chapter IV: Testing of Disclosures Related to Changes in Credit Limits

Interviews in Bethesda, MD (November 2009)

The 10 cognitive interviews conducted in Bethesda, MD were also used to test a disclosure that would be provided to existing HELOC customers if the creditor decided to reduce the amount of their line of credit. The notice showed a list of possible reasons why the credit limit might have been reduced, with one option checked to indicate that the value of the property securing the loan had declined significantly. This notice included model clause G-23(A) that was published with the Board's proposed HELOC rules in 2009.

The notice of credit reduction that was shown to participants is provided in Appendix D of this report.

Key Interview Findings

- All participants understood that the purpose of the notice was to inform them that their credit line was reduced because the value of their home had decreased.
- The notice shown to participants was in the form of a checklist that the creditor could use to indicate the reason that it had reduced the credit limit. Two participants were confused by the other options listed on the notice and either thought that they were supposed to complete this information themselves or that the creditor would be providing them additional information about their circumstances. In addition to these two participants, several others initially seemed confused by the format of the letter but eventually figured it out themselves.
- All participants understood that they could ask for documentation of the creditor's valuation of their home.
- All participants understood that they could ask for reinstatement of their original credit limit in the future, and how to do so.
- All participants understood that if they asked for reinstatement of their original credit limit, the creditor would have to complete its investigation within 30 days.
- All participants understood that they would not be charged for an investigation the first time they asked for their original credit limit to be reinstated, but that they could be charged fees for subsequent requests.

Subsequent Design Decisions

- Comprehension of the notice of credit reduction that was shown to participants in this round was generally high. However, several participants were confused by the "checklist" format used on the notice. Therefore, ICF Macro and Board staff decided to design and test a version of the form that did not include a checklist, but instead described only the specific reason for the reduction in the credit limit.

Interviews in Tampa, FL (January 2010)

The notice of credit limit reduction was tested again in the subsequent round of 11 cognitive interviews held in Tampa, FL. This notice was similar to that used in the first round of testing, except that instead of providing a checklist of possible reasons that a customer's credit limit might have been reduced and indicating the relevant reason with a checkmark, the notice instead described only the specific reason for the reduction in the credit limit.

In addition to the notice of credit limit reduction, participants in this round were also shown a second notice, which indicated that a result for reinstatement of the original credit limit had been denied. The notice indicated that while the creditor's review had found that the value of the property had not significantly declined, the request for reinstatement had been denied because the customer's financial circumstances had materially changed. This notice was based on model clause G-22(A) that was published with the Board's proposed HELOC rules in 2009.

Both of these notices are provided in Appendix D of this report.

Key Interview Findings

Review of Notice of Credit Limit Reduction

- All participants understood that the purpose of the letter was to inform them that their credit line was reduced because the value of their home had decreased.
- All but one of the participants understood that the creditor used an "automated valuation method" to determine that the value of their home had gone down. However, few participants understood what an "automated valuation method" was; one guessed that the creditor was "looking around for property value."
- All but one of the participants understood that they could ask for documentation of the creditor's valuation of their home.
- All participants understood after reading the notice that they could ask for reinstatement of their original credit limit in the future, and how to do so.
- All participants understood that if they asked for reinstatement of their original credit limit, the creditor would have to complete its investigation within 30 days.
- Three participants incorrectly assumed that they would be charged for asking for reinstatement of their original credit limit; the remaining participants saw from the notice that they would not be charged fees for asking for reinstatement the first time.
- All but one participant understood that they could be charged fees for subsequent requests for reinstatement.

Review of Notice of Denial of Credit Limit Reinstatement

- All participants were able to comprehend and clearly explain the purpose of this notice. All understood after reading the notice that their credit limit would not be reinstated to the previous limit because of factors other than a reduction in the value of their homes, which was the original reason for the reduction.

- All participants understood that the creditor's decision to deny reinstatement was based on an examination of the borrower's credit report.
- All participants understood that they could ask the creditor to reinstate their credit limit again, but that they would be charged fees for subsequent requests. Everyone also understood that the creditor would complete its investigation in response to an additional request for reinstatement within 30 days.

Subsequent Design Decisions

- Comprehension of these two notices was generally high, so few revisions were made to the model form as a result of this testing.
- Because the removal of the checklist of possible reasons for credit reduction improved participants' comprehension of the notice in this round, Board staff decided that any future model forms for credit reduction notices should state the specific reason for credit reduction instead of including a checklist of possible reasons.

Chapter V: Testing of Credit Insurance Disclosures

Interviews in Phoenix, AZ (March 2010)

The round of 10 cognitive interviews conducted in Phoenix, AZ on March 23 and 24, 2010 was also used to test a disclosure that creditors would be required to provide to consumers before they purchased voluntary credit insurance. The purpose of this disclosure was to explain features of credit insurance, such as the fact that purchasers might not qualify for benefits if they do not meet all eligibility requirements. This disclosure (referred to as CI-1) was based on a credit life insurance sample for a HELOC published by the Board in Appendix G-17(C) of the August 2009 proposed rules.

CI-1 is provided in Appendix D of this report.

Key Interview Findings

- Five of the 10 participants understood before reading the disclosure that credit life insurance was a product that could help pay off a mortgage loan in the event of death. The other five had not heard of credit life insurance before reading the disclosure.
- After reading the disclosure, all but one participant understood that credit life insurance was not required on their line of credit.
- CI-1 disclosed the cost of credit life insurance on a unit-cost basis. Although participants were provided with a calculator, only three participants were able to determine the cost of the insurance using the unit-cost disclosure. Other participants either did not know how to calculate the cost based on the disclosure or made mathematical mistakes when doing so.
- At the bottom of the form, by the signature line, CI-1 stated that the coverage would provide a maximum benefit of $10,000. However, only half of the participants understood after reading the notice that there was a $10,000 cap on their benefits. Others said they did not know what the maximum benefit would be, or incorrectly assumed that their entire balance would be paid off.
- In participants' initial reading of the disclosure, eight of the 10 participants commented on the fact that they might not receive benefits even after purchasing the product and making payments for a number of years. In most cases, participants were surprised by this and indicated that it made them less likely to purchase the insurance.
- All but one participant saw from the form that they could cancel the insurance and receive a refund within the first 30 days.
- After reviewing the form, seven of the 10 participants indicated that they would not buy the product. One said that she would buy the product, while two others indicated that they were unsure. Those who were unsure said that they would call their broker or financial advisor for additional information before making a decision.

Subsequent Design Decisions

- While comprehension of most information on the notice was fairly high, there was some information—such as the cost of the coverage and the maximum benefit—that less than half of the participants understood. In addition, Board staff wanted to add disclosures regarding the term of coverage and limitations on co-borrowers. To make the disclosure easier to read and comprehend, ICF Macro and Board staff decided to present the information in a tabular format based on previous testing of other financial disclosures, such as HELOC disclosures, rescission notices, and description of checking account overdraft policies.[6]

- The two pieces of information that participants struggled with in this round—the cost of coverage and maximum benefit—were given more prominence in the tabular disclosure used in the next round. Also, ICF Macro and Board staff decided to disclose the cost of the product as a dollar figure rather than as a unit cost.

Interviews in Memphis, TN (April 2010)

Objectives and Methodology

Credit insurance disclosures were tested again through eight cognitive interviews conducted in Memphis, TN on April 16, 2010. The biggest difference between the disclosure tested in this round (referred to as CI-2) and the notice used in the previous round (CI-1) was that the information in CI-2 was presented in a table, in which questions in the left-hand column (such as "Am I eligible for credit life insurance?") were answered in the right-hand column. Some additional information was also added to CI-2 that was not in CI-1, including the term of coverage and limitations on co-borrowers.

CI-2 is provided in Appendix D of this report.

Key Interview Findings

- Two of the eight participants understood before reading the disclosure that credit life insurance was a product that could help pay off a mortgage loan in the event of death. One said that he had heard of the product "in the context of car loans," while another thought it was insurance that would make mortgage payments if a borrower lost their job. The other four participants had never heard of credit life insurance before reading the disclosure.

- After reading the disclosure, five participants expressed surprise that they might not receive benefits even after purchasing the product and making payments for a number of years. Five also were surprised that the insurance lasted for only the first 10 years of their loan. Two participants were surprised that benefits would be capped at $100,000, while two others were surprised that their co-borrower would not be covered.

- All participants understood that credit life insurance was not required on their loan.

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[6] Findings on these other disclosures have been reported to the Board in separate reports; see, *Design and Testing of Truth in Lending Disclosures for Home Equity Lines of Credit* (available at http://www.federalreserve.gov/boarddocs/meetings/2009/20090723/Full%20HELOC_Macro%20Report.pdf), *Design and Testing of Rescission Notices* (submitted July 2010), and *Design and Testing of Overdraft Disclosures: Phase Two* (available at http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20091112a4.pdf).

- CI-2 disclosed the cost of the product as a dollar figure based on the loan amount, rather than a unit cost as in CI-1. All participants who saw CI-2 understood that the product would cost them $72 a month if they purchased it.
- On CI-2 the maximum benefit was disclosed in the question-and-answer table, rather than near the signature line as in CI-1. When participants were asked how much the insurance company would pay if they had a loan balance of $200,000 when they died, all participants who saw CI-2 understood that their benefits would be capped at $100,000.
- Six of the eight participants understood that if they died after purchasing this insurance they might not be eligible for benefits. The remaining two participants did not see this information in the notice. When this information was pointed out to one of these two, he said that he might not be eligible for benefits because he had not purchased the product.
- All but one participant understood they could cancel the insurance after 30 days, and that if they did they would receive a refund. The remaining participant did not see this information in the notice. All but one participant also understood that they could cancel the insurance after a year if they wished to do so. One participant incorrectly thought that he could still obtain a refund if he did so; others understood that they could not.
- All participants recognized that if their spouse died, they would receive no benefits unless they had also purchased their own credit life insurance policy.
- All participants indicated that based on what they had read in the disclosure, they would not purchase credit life insurance.
- When asked what they would do if they were unsure whether to purchase credit life insurance, two participants said that they would use the website listed in the notice. Other participants said they would research the product online (but did not mention the website in the disclosure), or indicated that they would talk to a financial advisor or insurance agent.
- When it was pointed out to them, all but one participant indicated that they might use the website in the notice. When asked what information they would be looking for, most participants said they would want to learn more about the eligibility requirements for the product. One said that she would want to know the "pros and cons" of having credit life insurance.

Subsequent Design Decisions

- Findings from this round showed that comprehension of the disclosure was high when the information was presented in tabular question-and-answer format. As a result, the model forms that will be proposed by the Board will use this format.
- Because comprehension of the content of this disclosure was high, the Board intends to propose model forms that include this content for the most part. However, because of the Board staff's concerns about "information overload," the model forms will not include information about co-borrowers and cancellation rights. To address concerns about eligibility based on age limits, the model form will include a disclosure of the age limit for eligibility of the product in the section describing how long the coverage will last.

Chapter VI: Summary

This report summarizes work conducted by ICF Macro in support of the Board's efforts to amend Regulation Z rules related to three types of disclosures: a) periodic statements for HELOCs that the Board proposed in August 2009; b) disclosures related to changes in credit limits for HELOCs based on model clauses that the Board proposed in August 2009; and c) disclosures related to credit insurance based on model clauses that the Board proposed in August 2009. ICF Macro tested these disclosures in four rounds of in-depth interviews between November 2009 and April 2010.

Consumer testing showed that consumers do not understand and are unlikely to use certain terms, such as the daily interest rates and fee-inclusive APR on periodic statements. These findings suggested that these terms could be removed from the statements with little, if any, harm to consumers.

In other cases consumer testing showed that revising the structure of the disclosure had a positive impact on consumer comprehension. In the case of the credit insurance disclosure, testing showed that presenting content in a tabular, Q&A structure led to increased understanding of the information. In the case of notices of a reduction of credit limit, a checklist listing all possible reasons for the reduction was confusing to consumers. Consumer testing showed that a revised version of the notice, stating the specific reasons for a reduction of credit limit, is more effective and easier for consumers to comprehend.

The Board intends to propose model forms related to credit insurance in connection with its July 2010 Regulation Z proposed amendments. These model forms were developed, in large part, based on consumer testing described in this report. Consumer testing results indicate that the revised forms communicate important information in a clear and effective way, which should enable consumers to comprehend complex information and make informed financial decisions.

Appendix A:
Sample Recruitment Protocol
(Rounds 1 through 3)

Participant Screener for Federal Reserve Board In-Depth Interviews

Phoenix, AZ
March 23 and 24, 2010

General Information and Recruiting Specifications

- Interviews will be held on March 23 and 24 at the following times: 9:00, 10:30, 12:30, 2:00, and 3:30.
- INTERVIEWERS: Ask all participants to bring their reading glasses if necessary, because they will be asked to read several sample mortgage documents as part of the interview or focus group.

Recruiting Script

Hello, I am calling on behalf of the United States Federal Reserve Board. The Federal Reserve Board is sponsoring a series of consumer interviews in your area so that we can learn more about how people make financial decisions. We will use what we learn from these interviews to help make sure that the information that banks provide to consumers about various financial products is useful and easy to understand.

Q1: Do you currently own a home?

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

Q2: Have you ever taken out a loan against equity in your home to pull money out for some purpose, either as a second mortgage at the time you purchased your home, or for home improvements, debt consolidation or to cover other expenses?

- ❑ Yes → Continue
- ❑ No → Participant qualifies for <u>Group C</u>: Skip to Q6

Q3: Was this loan related to a property for your own use, or a property you purchased solely as an investment?

- ❑ Own Use → Continue
- ❑ Investment → *Thank respondent politely and end call.*

Q4: There are at least two ways in which someone can borrow money against equity in his or her home. One is a traditional mortgage where you borrow a fixed sum of money at once and pay it back over time. The other is a home equity line of credit (also known as a "HELOC") which allows you to draw different amounts of money whenever you need it. At any point in the past five years, have you had a home equity line of credit (or "HELOC")?

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

Q5a: Did you get your HELOC at the same time as your primary mortgage?

- ❑ Yes → Continue
- ❑ No → Participant qualifies for Group A: Skip to Q6

Q5b: Did you use money from your HELOC to help purchase your house?

- ❑ Yes → Participant qualifies for Group B: continue to Q6
- ❑ No → Participant qualifies for Group A: continue to Q6

Q6: Are you the person in your household who would be responsible for making decisions related to a home equity line of credit or home equity loan?

- ❑ Yes → Continue
- ❑ Yes, in cooperation with my [spouse, partner, etc.] → Continue
- ❑ No → *Ask the respondent whether the primary decision maker is available to join the call. If not, thank respondent politely and end call.*

Great. We will be holding interviews in Phoenix on March 23rd and 24th. I was wondering if you would be interested in attending.

- ❑ Yes → Continue to screening questions
- ❑ No → *Record reason (not interested, not available on that date, etc.). If unavailable on that date, retain their information because we may do additional rounds of testing in the future. Thank them politely and end call.*

That's great. I just need to ask you a few more questions to see if you qualify for one of our interviews.

Q7: Do you work, or have you ever worked, for a bank or other financial institution, or in the real estate or mortgage industry?

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

ARTICULATION QUESTION: In a few sentences, could you explain what a home equity line of credit is?

- ❑ If respondent gives a thoughtful, articulate answer → Continue
- ❑ If respondent does not give a thoughtful, articulate answer → *Thank respondent politely and end call.*

Screening Criteria	Recruiting Quotas
	• At least two participants must be in Group B. • Exactly four participants must be in Group C. • Rest of participants must be in Group A.
Q8a: Have you experienced any of the following financial hardships in the past 7 years: bankruptcy, foreclosure, repossession, or a tax lien? a) Yes b) No Q8b: How would you rate your credit? a) Excellent b) Good c) Fair d) Poor	At least three (but no more than five) recruits must answer: • "a" to Q8a; ***or*** • "c" or "d" to Q8b.
Q9a: [*Groups A and B only*] Do you currently have an outstanding balance on your HELOC? ❑ Yes ❑ No Q9b: [*Groups A and B only*] What is the current outstanding balance on your HELOC? ❑ $70,000+ ❑ $30,000–$70,000 ❑ $10,000–$30,000 ❑ Less than $10,000	At least three (but no more than six) recruits should answer "Yes" to Q9a
Q10: What is your age? a) 18 to 35 b) 36 or above	At least 3 recruits should respond "a"

Screening Criteria	Recruiting Quotas
Q11: Which of the following categories best reflects your race or ethnicity? You can choose more than one category. *[Respondents who wish to choose more than one category should be counted as minorities, even if one race mentioned is White.]* a) White b) Black or African-American c) Hispanic or Latino d) Asian or Pacific Islander e) Native American or Alaska Native	• At least 4 recruits should respond "a" • At least 4 recruits should respond "b," "c," "d," or "e"
Q12: 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 2 recruits should respond "a" • At least 3 recruits should respond "b" • At least 3 recruits should respond "c"
Q13: *Gender*	At least 3 recruits of each gender

Appendix B:
Recruitment Protocol
(Round 4)

Participant Screener for Federal Reserve Board In-Depth Interviews

Memphis, TN
April 16, 2010

General Information and Recruiting Specifications

- Interviews will be held on April 16 at the following times: 9:00, 10:00, 11:00, 12:00, 1:00, 2:00, 3:00, and 4:00.
- INTERVIEWERS: Ask all 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, I am calling on behalf of the United States Federal Reserve Board. As you may know, recently many Americans have had problems with their mortgages. In response to the recent mortgage issues, the Federal Reserve Board is sponsoring a series of consumer interviews in your area so that we can learn more about how people make decisions regarding their mortgages. We will use what we learn from these interviews to help improve the information consumers receive when they get a mortgage loan.

Q1: Have you obtained a new mortgage or refinanced a mortgage in the past two years?

- ❑ Yes → Continue to Q2
- ❑ No → *Thank respondent politely and end call.*

Great. We will be holding interviews in Memphis, Tennessee on Friday, April 16th. Participants will receive a stipend in exchange for their time and input on this important topic. I was wondering if you would be interested in attending.

- ❑ Yes → Continue to screening questions
- ❑ No → *Record reason (not interested, not available on that date, etc); thank them politely and end call.*

Q2: Have you participated in any focus groups or in-person interviews in the past 6 months?

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

Q3: Was this mortgage related to a property for your own use, or a property you purchased solely as an investment?

- ❑ Own use → Continue
- ❑ Investment → *Thank respondent politely and end call.*

Q4: Were you the person in your household who was 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.*

Q5: Do you work or have you ever worked for a bank or other financial institution, or in the real estate or mortgage industry?

- ❑ 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 indicates that he/she got their mortgage through a family member or close friend who was a broker or worked at a bank → *Thank respondent politely and end call.*

In all other cases…

- ❑ If respondent gives a thoughtful, articulate answer → Participant qualifies in Category A; continue to Q7
- ❑ If respondent does not give a thoughtful, articulate answer → *Thank respondent politely and end call.*

At this point, I am going to ask you a few questions that pertain to financial information that you might find personal or private. However, I want to assure you that none of this information will be shared outside the group conducting this research, and all information will be kept anonymous—your name will never be used in any reports.

Q7: How many mortgages do you currently have on your primary residence?

- ❑ One (skip to Q9a)
- ❑ Two or more

Q8: Was the mortgage that you obtained in the past two years the larger or smaller of these mortgages?

- ❑ Larger (1st mortgage)
- ❑ Smaller (2nd or 3rd mortgage) [*NOTE: No more than 2 among interviews*]
- ❑ Both [*Direct respondent to answer remaining questions based on larger (1st) mortgage*]

If answer is "a" or "c"

Q9a: What is the current interest rate on this mortgage?

- ❑ 7% or below
- ❑ Above 7% → **Qualifies as SP (Subprime)**
- ❑ Don't know

If answer is "b"

Q9b: What is the current interest rate on this mortgage?

- ❑ 9% or below
- ❑ Above 9% → Qualifies as SP
- ❑ Don't know

Q16: Have you experienced any of the following financial hardships in the past seven years: bankruptcy, foreclosure, repossession, or a tax lien?

- ❑ Yes → Respondent qualifies as SP
- ❑ No

Q17: In the past two years, have you been turned down for credit or have you been discouraged from applying for credit?

- ❑ Yes → Respondent qualifies as SP
- ❑ No

Screening Criteria	Recruiting Quotas
Does participant qualify as "SP"?	• At least 3 recruits must be SP • At least 3 recruits must NOT be SP
Q18: Was the mortgage that you obtained used to re-finance an existing mortgage? a) Yes (skip to Q20) b) No	• No more than 3 recruits should answer "a"
Q19: Was this the first home you ever purchased? a) Yes b) No	• At least 3 recruits should respond "a"

Screening Criteria	Recruiting Quotas
Q20: Some mortgages have an adjustable interest rate. Does your new mortgage have a rate that is adjustable or will become adjustable in the future? a) Yes, adjustable b) No, not adjustable → Have you had an adjustable rate mortgage in the past five years? *If Yes, then count as "a"* c) Don't know	• No more than 2 recruits should respond "b" or "c"
Q21: What is your age? a) 18 to 25 b) 26 to 35 c) 36 to 50 d) 51 or above	• At least 2 recruits should respond "a" or "b" • At least 2 recruits should respond "c" or "d"
Q22: Which of the following categories best reflects your race or ethnicity? You can choose more than one category. [*Respondents who wish to choose more than one category should be counted as minorities, even if one race mentioned is White.*] a) White b) Black or African-American c) Hispanic or Latino d) Asian e) Native American or Pacific Islander	• At least 2 recruits should respond "a" • At least 4 recruit should respond "b," "c," "d," or "e"
Q23: What is the highest level that you reached in school? a) Some high school b) High school graduate c) At least some college work d) College graduate e) At least some graduate school	• At least 2 recruits should respond "a" or "b" • At least 2 recruits should be "c"
Q24: Gender	• At least 3 recruits of each gender

Appendix C:
Participant Demographic and Background Information

	Bethesda, MD (November 2009 Interviews)	Tampa, FL (January 2010 Interviews)	Phoenix, AZ (March 2010 Interviews)	Memphis, TN (April 2010 Interviews)	Total
Gender					
Male	4	5	3	3	15 (38%)
Female	6	6	7	5	24 (62%)
Age					
18-35	3	2	2	3	10 (26%)
36+	7	9	8	5	29 (74%)
Ethnicity					
White	6	7	6	2	21 (54%)
African-American	3	1	2	5	11 (28%)
Latino	1	2	2	0	5 (13%)
Asian	0	1	0	1	2 (5%)
Education Level					
High school or less	1	2	3	2	8 (21%)
Some college	4	7	5	4	20 (51%)
College graduate	5	2	2	2	11 (28%)
Financial Hardship (e.g., bankruptcy, foreclosure) in Past Seven Years?					
Yes	1	3	1	0	5 (13%)
No	9	8	9	8	34 (87%)
Self-Reported Credit Rating					
Excellent	5	3	3	0	11 (28%)
Good	3	3	3	4	13 (33%)
Fair	1	2	3	2	8 (21%)
Poor	1	3	1	2	7 (18%)

	Bethesda, MD (November 2009 Interviews)	Tampa, FL (January 2010 Interviews)	Phoenix, AZ (March 2010 Interviews)	Memphis, TN (April 2010 Interviews)	Total
Previous Experience with HELOCs[1]					
Had a HELOC in the past 5 years?	9	10	8	—	27 (87%)
Had home equity loan in past 5 years; considered HELOC as an alternative	0	1	0	—	1 (3%)
No HELOC or home equity loan	1	0	2	—	3 (10%)
HELOC Balance					
Yes	6	9	5	—	20 (65%)
No	3	1	3	—	7 (23%)
No HELOC	1	1	2	—	4 (13%)
Current HELOC Balance					
$70,000+	0	2	1	—	3 (15%)
$30,000 - $70,000	3	2	0	—	5 (25%)
$10,000 - $30,000	1	2	4	—	7 (35%)
Less than $10,000	2	3	0	—	5 (25%)
Mortgage Used to Refinance Existing Loan[2]					
Yes	—	—	—	4	4 (50%)
No	—	—	—	4	4 (50%)

[1] Participants in the fourth round of testing were not screened on the basis of experience with HELOCs, because that round tested a rescission notice that would be given in the context of a refinanced mortgage loan, not a home equity line of credit.
[2] Participants in the fourth round all had obtained a mortgage in the past two years, and were asked whether this mortgage was used to refinance an existing loan. Participants in the first three rounds were not screened on the basis of this question.

Appendix D:
Disclosure Forms Used in Testing

Periodic Statements
for Home Equity Lines of Credit

PS-1

PS-2

PS-3

PS-4

XXX Bank Home Equity Line of Credit Account Statement
Account Number XXXX XXXX XXXX XXXX
September 21, 2009 to October 22, 2009

Summary of Account Activity

Previous Balance	$25,105.00
Payments	-$500.00
Other Credits	$0.00
Variable Rate Advances	+$3,000.00
Fixed Rate Advances	+$5,000.00
Total Interest and Fees Charged	**+$214.33**
New Balance	$32,819.33
Credit Limit	$80,000.00
Available Credit	$47,180.67
Statement Closing Date	10/22/2009
Days in Billing Cycle	31

Payment Information

New Balance	$32,819.33
Minimum Payment Due	$149.33
Payment Due Date	11/20/09

QUESTIONS?
Call Customer Service 1-XXX-XXX-XXXX

Please send billing inquiries and correspondence to:
PO Box XXXX, Anytown, Anystate XXXXX

Transactions

Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
5884186PS0388W6YM	9/22	9/23	Variable Rate Advance	$3,000.00
0544400060ZLV72VL	9/25	9/25	Fixed Rate Advance	$5,000.00
854338203FS8OO0Z5	9/25	9/25	Pymt Thank You	$500.00–
			Fees	
9525156489SFD4545Q	9/23	9/23	Late Fee	$15.00
56415615647OJSNDS	9/25	9/25	Fixed Rate Advance Fee *Transaction Fee*	$50.00
			TOTAL FEES FOR THIS PERIOD	**$65.00**
			Interest Charged	
			Interest Charge on Variable Rate Advances	$122.51
			Interest Charge on Fixed Rate Advance	$26.82
			TOTAL INTEREST FOR THIS PERIOD	**$149.33**

2009 Totals Year-to-Date	
Total fees charged in 2009	$80.00
Total interest charged in 2009	$258.83

Interest Charge Calculation

Your **Annual Percentage Rate (APR)** is the annual interest rate on your account.

Type of Balance	Annual Percentage Rate (APR)	Daily Interest Rates	Balance Subject to Interest Rate	Interest Charge
Variable Rate Advances	5.25%	0.014%	$27,475.97	$122.51
Fixed Rate Advance	7.25%	0.020%	$4,354.84	$26.82

Fee-Inclusive APR

The **Fee-Inclusive APRs** in this table are the APRs that you paid this period when transaction or fixed fees are taken into account as well as interest.

Type of Balance	Interest Charges	Transaction or Fixed Fees	Fee-Inclusive APR
Variable Rate Advances	$122.51	$0.00	5.25%
Fixed Rate Advance	$26.82	$50.00	18.44%

NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION

Please detach this portion and return with your payment to insure proper credit. Retain upper portion for your records.

Account Number:	**XXXX XXXX XXXX XXXX**
New Balance	**$32,819.33**
Minimum Payment Due	**$149.33**
Payment Due Date	**11/20/09**

AMOUNT ENCLOSED: $

Please indicate address change and additional requests on the reverse side.

XXX Bank
P.O. Box XXXX
Anytown, Anystate XXXXX

Interest Charge Calculation Method

Variable Rate Advances

A. The “Daily Balances” of your Variable Rate Advances for each day of the billing period equals the Variable Rate Advances due at the beginning of that day, plus all new Variable Rate Advances taken that day, including any Fixed Rate Advances that are converted to Variable Rate Advances, less all payments and credits relating to the Variable Rate Advances received that day.

B. If only one Daily Interest Rate applies to the billing period, the interest charge is calculated by multiplying the “Balance Subject to Interest Rate” for the billing period by the applicable Daily Interest Rate and then multiplying that amount by the number of days in the billing period. The “Balance Subject to Interest Rate” is the sum of the Daily Balances of all days in the billing period divided by the number of days in the billing period.

C. If more than one Daily Interest Rate applies to the billing period, the interest charge is calculated by:

1. Multiplying each Daily Interest Rate by the “Balance Subject to Interest Rate” for the period of time that Daily Interest Rate is in effect. The “Balance Subject to Interest Rate” for the period of time that the Daily Interest Rate is in effect is the sum of the Daily Balances of all days in the billing period during which the Daily Interest Rate is in effect, divided by the number of days that the Daily Interest Rate is in effect.

2. Multiplying each amount by the corresponding number of days that the Daily Interest Rate is in effect during the billing period, and

3. Adding together the resulting amounts.

Fixed Rate Advances

A. The “Outstanding Principal Balance” of a Fixed Rate Advance for each day of the billing period is calculated by starting with the balance that day and then subtracting any payments or credits.

B. The “Balance Subject to Interest Rate” for each Daily Interest Rate imposed during the billing period is the sum of the Outstanding Principal Balances of the Fixed Rate Advance for each day that the Daily Interest Rate is in effect divided by the number of days that the Daily Interest Rate is in effect.

C. For each Fixed Rate Advance, the interest charge is calculated by multiplying each Balance Subject to Interest Rate for the Fixed Rate Advance by the number of days that the applicable Daily Interest Rate is in effect, and multiplying that amount by the applicable Daily Interest Rate.

The interest charges begin to accrue on the date of any purchase, cash advance, or advance by any means is posted to your account, and continues until the Line of Credit is paid in full.

Your Liability
Our records show that you are liable for any outstanding balance on this account if your name appears on the front of this statement or you otherwise agreed.

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Call the 24-hour toll free number 1.800.555.6666. Do not use your account after you report a lost or stolen card.

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- Your name and account number
- The dollar amount of the suspected error
- Describe the error and explain, if you can, why you believe there is an error

You do not have to pay any amount in question while we are investigating, but you are still obligated to pay the parts of your bill that are not in question. While we investigate your questions, we cannot report you as delinquent or take any action to collect the amount you question.

Special Rule for Credit Card Purchases
If you have a problem with the quality of goods or services that you purchased with a credit card, and you have tried in good faith to correct the problem with the merchant, you may not have to pay the remaining amount due on the goods or services. You have this protection only when the purchase price was more than $50 and the purchase was made in your home state or within 100 miles of your mailing address (if we own or operate the merchant, or if we mailed you the advertisement for the property or service, all purchases are covered regardless of the amount or location of purchase).

IMPORTANT CREDIT BUREAU REPORTING INFORMATION REQUIRED BY FEDERAL LAW TO BE DISCLOSED TO YOU

WE MAY REPORT INFORMATION ABOUT YOUR ACCOUNT TO CREDIT BUREAUS. LATE PAYMENTS, MISSED PAYMENTS OR OTHER DEFAULTS ON YOUR ACCOUNT MAY BE REFLECTED IN YOUR CREDIT REPORT.

For address changes, you may access your account online at: www.artesian.com, call 1.800.555.6666 or write your address changes below. If you choose to call the 800# provided, you must have your account number with you. Please include your account number to ensure accurate processing.

Address

City State Zip

Home Phone Work Phone

E-mail Address

By providing us with your e-mail address, you agree that we may communicate with you by electronic mail.

Prompt Crediting of Payments
We will credit any payments as of the date we receive it as long as it is mailed with the enclosed payment coupon and received by us no later than 5:00 PM at either the P.O. Box on the front or the P.O. Box above. Crediting of all other payments may be delayed up to 5 days. All payments must be in the form of a check or money order drawn in U.S. dollars on a financial institution located in the U.S. or the U.S. Post Office or made by electronic funds transfers, however cash payments may be made in person at our banking centers only.

XXX Bank Home Equity Line of Credit Account Statement
Account Number XXXX XXXX XXXX XXXX
September 21, 2009 to October 22, 2009

Summary of Account Activity

Previous Balance	$25,105.00
Payments	-$500.00
Other Credits	$0.00
Variable Rate Advances	+$3,000.00
Fixed Rate Advances	+$5,000.00
Total Interest and Fees Charged	**+$214.33**
New Balance	$32,819.33
Credit Limit	$80,000.00
Available Credit	$47,180.67
Statement Closing Date	10/22/2009
Days in Billing Cycle	31

Payment Information

New Balance	$32,819.33
Minimum Payment Due	$149.33
Payment Due Date	11/20/09

QUESTIONS?
Call Customer Service 1-XXX-XXX-XXXX

Please send billing inquiries and correspondence to:
PO Box XXXX, Anytown, Anystate XXXXX

Transactions

Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
5884186PS0388W6YM	9/22	9/23	Variable Rate Advance	$3,000.00
9525156489SFD4545Q	9/23	9/23	Late Fee	$15.00
854338203FS8OO0Z5	9/25	9/25	Pymt Thank You	$500.00–
0544400060ZLV72VL	9/25	9/25	Fixed Rate Advance	$5,000.00
56415615647OJSNDS	9/25	9/25	Fixed Rate Advance Fee *Transaction Fee*	$50.00
			TOTAL FEES FOR THIS PERIOD	**$65.00**
			Interest Charged	
			Interest Charge on Variable Rate Advances	$122.51
			Interest Charge on Fixed Rate Advance	$26.82
			TOTAL INTEREST FOR THIS PERIOD	**$149.33**

2009 Totals Year-to-Date	
Total fees charged in 2009	$80.00
Total interest charged in 2009	$258.83

Interest Charge Calculation

Your **Annual Percentage Rate (APR)** is the annual interest rate on your account.

Type of Balance	Annual Percentage Rate (APR)	Daily Interest Rates	Balance Subject to Interest Rate	Interest Charge
Variable Rate Advances	5.25%	0.014%	$27,475.97	$122.51
Fixed Rate Advance	7.25%	0.020%	$4,354.84	$26.82

Fee-Inclusive APR

The **Fee-Inclusive APRs** in this table are the APRs that you paid this period when transaction or fixed fees are taken into account as well as interest.

Type of Balance	Interest Charges	Transaction or Fixed Fees	Fee-Inclusive APR
Variable Rate Advances	$122.51	$0.00	5.25%
Fixed Rate Advance	$26.82	$50.00	18.44%

NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION

Please detach this portion and return with your payment to insure proper credit. Retain upper portion for your records.

Account Number:	**XXXX XXXX XXXX XXXX**
New Balance	**$32,819.33**
Minimum Payment Due	**$149.33**
Payment Due Date	**11/20/09**

AMOUNT ENCLOSED: $

Please indicate address change and additional requests on the reverse side.

XXX Bank
P.O. Box XXXX
Anytown, Anystate XXXXX

Interest Charge Calculation Method

Variable Rate Advances

A. The "Daily Balances" of your Variable Rate Advances for each day of the billing period equals the Variable Rate Advances due at the beginning of that day, plus all new Variable Rate Advances taken that day, including any Fixed Rate Advances that are converted to Variable Rate Advances, less all payments and credits relating to the Variable Rate Advances received that day.

B. If only one Daily Interest Rate applies to the billing period, the interest charge is calculated by multiplying the "Balance Subject to Interest Rate" for the billing period by the applicable Daily Interest Rate and then multiplying that amount by the number of days in the billing period. The "Balance Subject to Interest Rate" is the sum of the Daily Balances of all days in the billing period divided by the number of days in the billing period.

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1. Multiplying each Daily Interest Rate by the "Balance Subject to Interest Rate" for the period of time that Daily Interest Rate is in effect. The "Balance Subject to Interest Rate" for the period of time that the Daily Interest Rate is in effect is the sum of the Daily Balances of all days in the billing period during which the Daily Interest Rate is in effect, divided by the number of days that the Daily Interest Rate is in effect.

2. Multiplying each amount by the corresponding number of days that the Daily Interest Rate is in effect during the billing period, and

3. Adding together the resulting amounts.

Fixed Rate Advances

A. The "Outstanding Principal Balance" of a Fixed Rate Advance for each day of the billing period is calculated by starting with the balance that day and then subtracting any payments or credits.

B. The "Balance Subject to Interest Rate" for each Daily Interest Rate imposed during the billing period is the sum of the Outstanding Principal Balances of the Fixed Rate Advance for each day that the Daily Interest Rate is in effect divided by the number of days that the Daily Interest Rate is in effect.

C. For each Fixed Rate Advance, the interest charge is calculated by multiplying each Balance Subject to Interest Rate for the Fixed Rate Advance by the number of days that the applicable Daily Interest Rate is in effect, and multiplying that amount by the applicable Daily Interest Rate.

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- Your name and account number
- The dollar amount of the suspected error
- Describe the error and explain, if you can, why you believe there is an error

You do not have to pay any amount in question while we are investigating, but you are still obligated to pay the parts of your bill that are not in question. While we investigate your questions, we cannot report you as delinquent or take any action to collect the amount you question.

Special Rule for Credit Card Purchases
If you have a problem with the quality of goods or services that you purchased with a credit card, and you have tried in good faith to correct the problem with the merchant, you may not have to pay the remaining amount due on the goods or services. You have this protection only when the purchase price was more than $50 and the purchase was made in your home state or within 100 miles of your mailing address (if we own or operate the merchant, or if we mailed you the advertisement for the property or service, all purchases are covered regardless of the amount or location of purchase).

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City State Zip

Home Phone Work Phone

E-mail Address

By providing us with your e-mail address, you agree that we may communicate with you by electronic mail.

Prompt Crediting of Payments
We will credit any payments as of the date we receive it as long as it is mailed with the enclosed payment coupon and received by us no later than 5:00 PM at either the P.O. Box on the front or the P.O. Box above. Crediting of all other payments may be delayed up to 5 days. All payments must be in the form of a check or money order drawn in U.S. dollars on a financial institution located in the U.S. or the U.S. Post Office or made by electronic funds transfers, however cash payments may be made in person at our banking centers only.

XXX Bank Home Equity Line of Credit Account Statement
Account Number XXXX XXXX XXXX XXXX
September 21, 2010 to October 22, 2010

Summary of Account Activity

Previous Balance	$25,105.00
Payments	-$500.00
Other Credits	$0.00
Variable Rate Advances	+$3,000.00
Fixed Rate Advances	+$5,000.00
Total Interest and Fees Charged	**+$214.33**
New Balance	$32,819.33
Credit Limit	$80,000.00
Available Credit	$47,180.67
Statement Closing Date	10/22/2010
Days in Billing Cycle	31

Payment Information

New Balance	$32,819.33
Minimum Payment Due	$149.33
Payment Due Date	11/20/10

QUESTIONS?
Call Customer Service 1-XXX-XXX-XXXX

Please send billing inquiries and correspondence to:
PO Box XXXX, Anytown, Anystate XXXXX

Transactions

Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
5884186PS0388W6YM	9/22	9/23	Variable Rate Advance	$3,000.00
0544400060ZLV72VL	9/25	9/25	Fixed Rate Advance	$5,000.00
854338203FS8OO0Z5	9/25	9/25	Pymt Thank You	$500.00–
			Fees	
9525156489SFD4545Q	9/23	9/23	Late Fee	$15.00
56415615647OJSNDS	9/25	9/25	Fixed Rate Advance Fee *Transaction Fee*	$50.00
			TOTAL FEES FOR THIS PERIOD	**$65.00**
			Interest Charged	
			Interest Charge on Variable Rate Advances	$122.51
			Interest Charge on Fixed Rate Advance	$26.82
			TOTAL INTEREST FOR THIS PERIOD	**$149.33**

2010 Totals Year-to-Date	
Total fees charged in 2010	$80.00
Total interest charged in 2010	$258.83

Interest Charge Calculation

Your **Annual Percentage Rate (APR)** is the annual interest rate on your account.

Type of Balance	Annual Percentage Rate (APR)	Daily Interest Rates	Balance Subject to Interest Rate	Interest Charge
Variable Rate Advances	5.25%	0.014%	$27,475.97	$122.51
Fixed Rate Advance	7.25%	0.020%	$4,354.84	$26.82

Fee-Inclusive APR

The **Fee-Inclusive APRs** in this table are the APRs that you paid this period when transaction or fixed fees are taken into account as well as interest.

Type of Balance	Interest Charges	Transaction or Fixed Fees	Fee-Inclusive APR
Variable Rate Advances	$122.51	$0.00	5.25%
Fixed Rate Advance	$26.82	$50.00	18.44%

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Account Number:	**XXXX XXXX XXXX XXXX**
New Balance	**$32,819.33**
Minimum Payment Due	**$149.33**
Payment Due Date	**11/20/10**

AMOUNT ENCLOSED: $

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XXX Bank
P.O. Box XXXX
Anytown, Anystate XXXXX

Interest Charge Calculation Method

Variable Rate Advances

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B. If only one Daily Interest Rate applies to the billing period, the interest charge is calculated by multiplying the "Balance Subject to Interest Rate" for the billing period by the applicable Daily Interest Rate and then multiplying that amount by the number of days in the billing period. The "Balance Subject to Interest Rate" is the sum of the Daily Balances of all days in the billing period divided by the number of days in the billing period.

C. If more than one Daily Interest Rate applies to the billing period, the interest charge is calculated by:

1. Multiplying each Daily Interest Rate by the "Balance Subject to Interest Rate" for the period of time that Daily Interest Rate is in effect. The "Balance Subject to Interest Rate" for the period of time that the Daily Interest Rate is in effect is the sum of the Daily Balances of all days in the billing period during which the Daily Interest Rate is in effect, divided by the number of days that the Daily Interest Rate is in effect.

2. Multiplying each amount by the corresponding number of days that the Daily Interest Rate is in effect during the billing period, and

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Fixed Rate Advances

A. The "Outstanding Principal Balance" of a Fixed Rate Advance for each day of the billing period is calculated by starting with the balance that day and then subtracting any payments or credits.

B. The "Balance Subject to Interest Rate" for each Daily Interest Rate imposed during the billing period is the sum of the Outstanding Principal Balances of the Fixed Rate Advance for each day that the Daily Interest Rate is in effect divided by the number of days that the Daily Interest Rate is in effect.

C. For each Fixed Rate Advance, the interest charge is calculated by multiplying each Balance Subject to Interest Rate for the Fixed Rate Advance by the number of days that the applicable Daily Interest Rate is in effect, and multiplying that amount by the applicable Daily Interest Rate.

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September 21, 2010 to October 22, 2010

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Reference Number	Trans Date	Post Date	Description of Transaction or Credit	Amount
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854338203FS8OO0Z5	9/25	9/25	Pymt Thank You	$500.00–
0544400060ZLV72VL	9/25	9/25	Fixed Rate Advance	$5,000.00
56415615647OJSNDS	9/25	9/25	Fixed Rate Advance Fee *Transaction Fee*	$50.00
			TOTAL FEES FOR THIS PERIOD	**$65.00**
			Interest Charged	
			Interest Charge on Variable Rate Advances	$122.51
			Interest Charge on Fixed Rate Advance	$26.82
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Minimum Payment Due	**$149.33**
Payment Due Date	**11/20/10**

AMOUNT ENCLOSED: $

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XXX Bank
P.O. Box XXXX
Anytown, Anystate XXXXX

Interest Charge Calculation Method

Variable Rate Advances

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B. If only one Daily Interest Rate applies to the billing period, the interest charge is calculated by multiplying the "Balance Subject to Interest Rate" for the billing period by the applicable Daily Interest Rate and then multiplying that amount by the number of days in the billing period. The "Balance Subject to Interest Rate" is the sum of the Daily Balances of all days in the billing period divided by the number of days in the billing period.

C. If more than one Daily Interest Rate applies to the billing period, the interest charge is calculated by:

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2. Multiplying each amount by the corresponding number of days that the Daily Interest Rate is in effect during the billing period, and

3. Adding together the resulting amounts.

Fixed Rate Advances

A. The "Outstanding Principal Balance" of a Fixed Rate Advance for each day of the billing period is calculated by starting with the balance that day and then subtracting any payments or credits.

B. The "Balance Subject to Interest Rate" for each Daily Interest Rate imposed during the billing period is the sum of the Outstanding Principal Balances of the Fixed Rate Advance for each day that the Daily Interest Rate is in effect divided by the number of days that the Daily Interest Rate is in effect.

C. For each Fixed Rate Advance, the interest charge is calculated by multiplying each Balance Subject to Interest Rate for the Fixed Rate Advance by the number of days that the applicable Daily Interest Rate is in effect, and multiplying that amount by the applicable Daily Interest Rate.

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STATEMENT DISCLOSURE:**

In Case of Error or Billing Inquiries
If you think your bill is wrong, or if you need more information about a transaction on your bill, *you must write to us (on a separate sheet) at XXX Bank, PO BOX XXX, ANYTOWN, ANYSTATE XXXXX-XXXX as soon as possible to preserve your rights*. We must hear from you no later than 60 days after we sent you the first bill on which the error or problem appeared. In your letter, give us the following information:

- Your name and account number
- The dollar amount of the suspected error
- Describe the error and explain, if you can, why you believe there is an error

You do not have to pay any amount in question while we are investigating, but you are still obligated to pay the parts of your bill that are not in question. While we investigate your questions, we cannot report you as delinquent or take any action to collect the amount you question.

Special Rule for Credit Card Purchases
If you have a problem with the quality of goods or services that you purchased with a credit card, and you have tried in good faith to correct the problem with the merchant, you may not have to pay the remaining amount due on the goods or services. You have this protection only when the purchase price was more than $50 and the purchase was made in your home state or within 100 miles of your mailing address (if we own or operate the merchant, or if we mailed you the advertisement for the property or service, all purchases are covered regardless of the amount or location of purchase).

IMPORTANT CREDIT BUREAU REPORTING INFORMATION REQUIRED BY FEDERAL LAW TO BE DISCLOSED TO YOU

WE MAY REPORT INFORMATION ABOUT YOUR ACCOUNT TO CREDIT BUREAUS. LATE PAYMENTS, MISSED PAYMENTS OR OTHER DEFAULTS ON YOUR ACCOUNT MAY BE REFLECTED IN YOUR CREDIT REPORT.

For address changes, you may access your account online at: www.artesian.com, call 1.800.555.6666 or write your address changes below. If you choose to call the 800# provided, you must have your account number with you. Please include your account number to ensure accurate processing.

Address

City State Zip

Home Phone Work Phone

E-mail Address

By providing us with your e-mail address, you agree that we may communicate with you by electronic mail.

Prompt Crediting of Payments
We will credit any payments as of the date we receive it as long as it is mailed with the enclosed payment coupon and received by us no later than 5:00 PM at either the P.O. Box on the front or the P.O. Box above. Crediting of all other payments may be delayed up to 5 days. All payments must be in the form of a check or money order drawn in U.S. dollars on a financial institution located in the U.S. or the U.S. Post Office or made by electronic funds transfers, however cash payments may be made in person at our banking centers only.

Disclosures Related to Changes to Credit Limits

Notice of Credit Limit Reduction (Round 1)

Notice of Credit Limit Reduction (Round 2)

Notice of Denial of Reinstatement (Round 2)

November 2, 2009

Pat Smith
11785 Beltsville Drive
Calverton, MD 20705

Re: Home Equity Credit Line #: 123456789

Dear Borrower(s):

This letter is notification that as of 10/29/09, the credit limit on your Home Equity Line of Credit has been reduced to $40,000 for the following reason(s):

(x) The value of the property securing your loan has declined significantly. The value of your property as of 10/15/09 has declined to $350,000. The property valuation method used to obtain your updated property value was an automated valuation method. You have a right to receive a copy of information supporting this property value. You may send your request to:

> Solar Bank
> P.O. Box 2222
> Wilmington, DE 19711-0241
> 1-800-555-9876

( ) Your financial circumstances have materially changed. To review your financial circumstances, we relied on ________________________.

( ) You defaulted on your obligation under your HELOC agreement to _________________________________.

( ) Other: ____.

You have the right to ask us to reinstate your credit privileges at any time by sending a request for reinstatement in writing to: Solar Bank, P.O. Box 2222, Wilmington, DE 19711-0241. You also may call us at 1-800-555-9876.

We will complete an investigation within 30 days of receiving your request. If no reason for reducing your credit limit is found, we will restore your credit privileges.

We do not charge you any fees to investigate the first time you ask us to reinstate your credit privileges after your credit limit has been reduced. If you ask us to reinstate your account after the first request, we may charge you a fee for a credit report or property valuation needed to investigate your request.

Sincerely,

Cheryl Deal
Assistant Vice President
Lending Services Division

January 26, 2010

Pat Smith
11785 Beltsville Drive
Calverton, MD 20705

Re: Home Equity Credit Line # 123456789

Dear Borrower(s):

This letter is to notify you that as of 1/19/2010, the credit limit on your home equity line of credit has been reduced to $40,000. We reduced the credit limit on your account because the value of your property as of 1/15/2010 has declined to $350,000. The property valuation method used to obtain your updated property value was <u>an automated valuation method</u>. You have a right to receive a copy of information supporting this property value. You may send your request to the address below or call us at 1-800-555-9876.

You have the right to ask us to reinstate your credit privileges by sending a written request for reinstatement to:

> Solar Bank
> P.O. Box 2222
> Wilmington, DE 19711-0241

We will not charge you any fees to investigate the first time you ask us to reinstate your credit privileges. If you ask us again to reinstate your credit privileges, we may charge you fees for credit report and property value information needed to investigate your request.

We will complete an investigation within 30 days of receiving your request and notify you of the results. Our investigation may include a review of your property value, material changes in your financial circumstances and whether you have defaulted on the terms of your agreement with us.

Sincerely,

Cheryl Deal
Assistant Vice President
Lending Services Division

February 24, 2010

Pat Smith
11785 Beltsville Drive
Calverton, MD 20705

Re: Home Equity Credit Line # 123456789

Dear Borrower(s):

We received your request to reinstate your credit privileges on your home equity line of credit and have investigated this matter. Based on the results of our investigation, we are not able to reinstate your credit privileges at this time.

Our investigation showed that your property value as of 2/20/2010 is $390,000. However, our investigation also showed that your financial circumstances have materially changed since you opened your home equity line of credit. As a result, we will not be able to reinstate your credit privileges at this time. To review your financial circumstances, we relied on your credit report information.

You have the right to ask us again to reinstate your credit privileges by sending a written request for reinstatement to the address below or calling us at 1-800-555-9876:

> Solar Bank
> P.O. Box 2222
> Wilmington, DE 19711-0241

If you ask us again to reinstate your credit privileges, we may charge you fees for credit report and property value information to investigate your request.

We will complete an investigation within 30 days of receiving your request and notify you of the results. Our investigation may include a review of your property value, material changes in your financial circumstances and whether you have defaulted on the terms of your agreement with us.

Sincerely,

Cheryl Deal
Assistant Vice President
Lending Services Division

Credit Insurance Disclosures

OPTIONAL COSTS

Option to Purchase Credit Life Insurance

STOP. You do **not** have to buy this product to get this line of credit.

- If you already have enough life insurance or savings to pay off this debt, you may not need this product.
- Other types of life insurance can give you similar benefits and are often less expensive.
- **Note that you may not qualify for benefits if you buy this product.** Based on our review you meet the age and employment eligibility restrictions, but there are other requirements that you may or may not meet. If you do not meet these eligibility requirements, even if you purchase this product and pay the monthly premium you will not receive any benefits.
- You may cancel this product within 30 days and receive a full refund. If you cancel after that, you will not receive a refund.

Go to www.frb.gov/creditlifeinsurance to learn more about whether this product is right for you.

☐ Yes, I want to purchase optional credit life insurance at an additional cost of 72 cents per month per $1,000 of monthly outstanding balance for a coverage of up to $10,000.

____ ____________

Signature of Borrower(s) Date

OPTIONAL COSTS

Option to Purchase Credit Life Insurance

STOP. You do **<u>not</u>** have to buy this insurance to get this loan. Go to www.frb.gov/creditlifeinsurance to learn more about whether this product is right for you.

Do I need credit life insurance?	If you already have enough life insurance to pay off this loan if you die, you may not need this product. Other types of life insurance can provide similar benefits and are often less expensive.
Am I eligible for credit life insurance?	**<u>You may not be eligible for benefits even if you buy this product</u>**. Based on our review you currently meet the age and employment eligibility requirements, but there are other requirements that you may not meet. If you do not meet these other requirements, you will not receive any benefits—even if you buy this product and pay the monthly premium.
What is the maximum benefit amount?	This product covers only the first $100,000 of the outstanding balance on your loan. You will be responsible for any balance above $100,000.
How much does credit life insurance cost?	This product will cost an additional $72 per month for coverage of up to $100,000. This cost will decrease if your loan balance falls below $100,000.
Are co-borrowers covered?	Your co-borrowers are **not** covered unless they also buy and are eligible for this product. This means that if you buy this product and your co-borrower does not, and he or she dies, you will not receive any benefits to help you pay off the loan.
How long does the coverage last?	This product covers only the first 10 years of your loan.
Can I cancel?	You can cancel this product at any time. However, you will receive a refund only if you cancel within 30 days of loan closing.

☐ Yes, I want to buy optional credit life insurance at an additional cost of $72 per month for coverage of up to $100,000 and a term of 10 years.

____ ____________

Signature of Borrower Date

ICF Macro
an ICF International Company

ICF Macro
11785 Beltsville Drive
Calverton, Maryland 20705
icfmacro.com