

Summary of Findings:
Design and Testing of
Truth in Lending Disclosures
for Rescission Notices

July 2010

Submitted to:
Board of Governors of the
Federal Reserve System

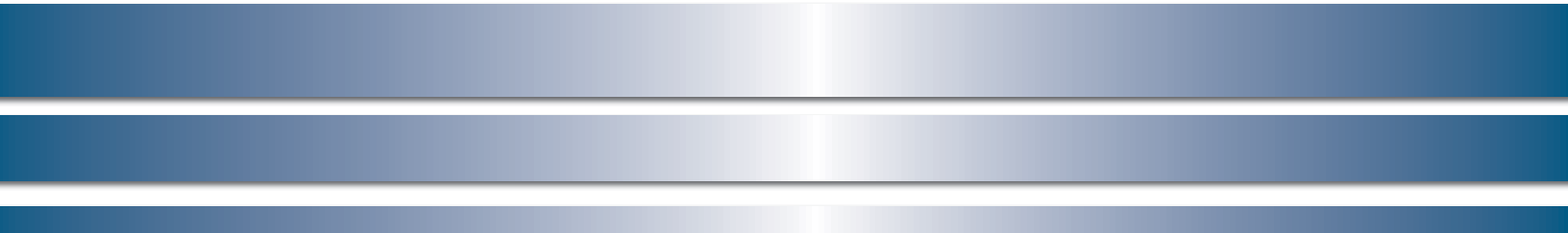
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Executive Summary

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.

TILA and Regulation Z provide that, unless the transaction is exempted, a consumer has a right to rescind a consumer credit transaction in which a security interest is or will be retained or acquired in a consumer's principal dwelling. Thus, under TILA, consumers have the right to cancel (or "rescind") certain home-secured transactions. This right of rescission was created to allow consumers time to reexamine their credit contracts and cost disclosures and to reconsider whether they want to place an important asset—their home—at risk by offering it as security for the credit.

In a transaction subject to the right of rescission, TILA requires that consumers be given a notice of the right to rescind. The notice must disclose that the creditor has a security interest in the consumer's home, that the consumer may rescind, how the consumer may rescind, the effects of rescission, and the date the rescission period expires. The rescission period generally expires at midnight after the third business day following the latest of three events: (1) consummation of the transaction, (2) delivery of material TILA disclosures, or (3) receipt of the required notice of the right to rescind.¹ To exercise the right of rescission, the consumer must send notification to the creditor or the creditor's agent designated on the notice provided by the creditor.

Since 2004, the Board has been reviewing Regulation Z to determine whether revisions are appropriate. One of the goals of this review is to ensure that the disclosures required by TILA are structured and worded in a way that consumers are most likely to understand and use in 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 the design and testing of rescission notices. Since August 2009, ICF Macro has conducted four rounds of one-on-one cognitive interviews on this topic, with a total of 39 participants. For each round, ICF Macro developed a set of model rescission notices to be tested. Interview participants were asked to review these notices 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 notice were most successful in communicating information clearly and effectively. The findings from each round of interviews were incorporated in revisions to the model notices for the following round of testing.

¹ Material TILA disclosures consist of the finance charge, the annual percentage rate, the total of payments, the payment schedule, the amount financed, and the disclosures and limitations for HOEPA-covered loans.

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

Summary of Methodology

Testing of the model rescission notices was carried out through four rounds of interviews held in different locations. Before each round of interviews, ICF Macro developed model notices for testing. In many cases, multiple versions of the model notice were developed so 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 notice design and layout. These results were then used to revise the model rescission notices for use in the next round of testing.

Participants in each round were recruited by telephone using a structured screening instrument in order to ensure the selection of a range of participants in terms of 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 rescission notices 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 rescission notice that would be given to borrowers who were refinancing a closed-end mortgage with the original creditor and were borrowing additional funds.² For that round, participants had obtained a mortgage in the past two years.

Individual interviews were approximately 75 minutes long. While the interview guide varied between rounds, the structure of these interviews was very similar. Participants were given a rescission notice 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 notice to determine how well they could find and interpret the content. The participants were then given a new notice to review, and the interviewer would take them through the same process.

Summary of Key Findings

Prior Awareness of the Right of Rescission

- Before they were shown any rescission notices, about a third of participants in the first three rounds knew that they would have some period of time after they opened a HELOC during which they could cancel it. Of those who did not know they could cancel, most said that if they decided not to keep the HELOC, they would contact the creditor to ask about their options. Some assumed that once they had signed the paperwork to open an account, they would be committed to proceed with the transaction.

² TILA exempts purchase-money loans and transactions in which consumers refinance a home-secured loan with the original creditor and incur no additional debt beyond the cost of refinancing the transaction—that is, where no “new money” is advanced. For testing purposes, participants were asked to assume that additional funds would be borrowed beyond the amount of the outstanding mortgage debt that the borrower had prior to refinancing.

- In the fourth round, two of the eight participants knew before they were shown a rescission notice that they would have the right to cancel the transaction. Of the six participants who did not know they could cancel, three indicated that if they no longer wished to refinance they would contact the creditor to ask about their options, while one said he would contact an attorney. One participant said she did not know what she would do in such a situation, while the remaining participant indicated that there was “nothing” he could do at that point to cancel the new loan.

General Format of Rescission Notice

- In the first round of testing, participants were shown two notices: RN-1 provided information in narrative format, while RN-2 provided the same information in a tabular format. When asked which of the two formats they preferred, all but one participant said they preferred the tabular format of RN-2. In addition, participants were more likely to notice information provided in RN-2 than in RN-1. For example, three of the five participants who reviewed RN-2 first noticed that they would not be charged a fee for cancelling the account, while none of those who reviewed RN-1 first noticed this information. For these reasons, as well as results of previous testing of other financial disclosures, such as HELOC disclosures and the description of checking account overdraft policies,³ ICF Macro and Board staff used a tabular format for all subsequent versions of the rescission notice.
- Beginning with the second round of interviews, all notices that were tested included a cut-off section at the bottom of the page that could be used to notify the creditor about cancellation. ICF Macro and Board staff decided to include the cut-off section to make it easier for borrowers to retain the rest of the information on the notice if they decided to cancel the transaction.

General Understanding of the Right to Cancel

- Regardless of which version of the rescission notice they were shown, all participants in all rounds understood after reading the notice that they would have the right to cancel their line of credit or loan.
- Although all notices that were tested contained a statement indicating that the right to cancel was provided “under federal law,” less than one-fourth of participants understood after reading the notice that this was the case. Most participants assumed that the creditor provided this right to their customers as a service, in case the customers changed their mind. One participant in the first round believed that the creditor used the rescission period to perform research to protect itself from originating bad loans or loans to consumers with bad credit. This misconception persisted despite revisions that were made to the notice in subsequent rounds. None of the eight participants in the final round knew after reading the notice that their right to cancel was guaranteed by law.

³ 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) and *Design and Testing of Overdraft Disclosures: Phase Two* (available at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20091112a4.pdf>).

Security Interest

- All but one participant in the four rounds understood after reading the notice that by opening the line of credit or obtaining a loan, they were giving the creditor the right to take their home if they could not repay. All but two participants in the first three rounds understood after reading the notice that if they cancelled their line of credit, the creditor would no longer have the right to take their home.⁴ In most cases, participants seemed to understand this information even before reading the rescission notice.

Fees

- In the first round of testing, only three of 10 participants understood after reading the notice that they would not be charged a fee for cancelling their HELOC, and six understood that any fees they had paid to open the account would be refunded to them. In subsequent rounds, information about fees was disclosed more prominently in a separate section of the notice labeled “If You Cancel.” This revision proved effective, as 26 of 29 participants in the last three rounds understood that they would not be charged a cancellation fee, and 20 of 29 understood that any fees they paid to open the account would be refunded.

Understanding of How to Cancel

- All notices that were tested indicated that borrowers could cancel by mail, e-mail, fax, or in person. All participants but one in the four rounds of testing were able to identify these four cancellation methods after reading the notice.
- Of the two rescission notices shown to participants in the first round, one described these four methods in a paragraph of text, while the other presented the methods as a bulleted list. Because all participants preferred the bulleted list, all subsequent versions of the notice used this format.
- When asked which of the four methods they would most likely use to cancel their HELOC or loan, participants’ responses were mixed. Most indicated that they would use fax or e-mail, because doing so would be relatively easy and would produce documentation of when notification had been sent. Although few participants in the first three rounds said they would deliver notification in person, five of the eight participants in the fourth round indicated they would do so. A number of participants expressed concerns about submitting notification of cancellation by mail (i.e., dropping it in the mail box) because of the difficulty of proving that the notification was sent by the deadline.
- A number of participants said they would provide notification to the creditor using at least two methods of delivery to make sure that the creditor received their notification of cancellation by the deadline.
- Almost all participants indicated that if they were delivering their notification of cancellation in person, they would not place it in the creditor’s drop box or give it to a bank teller, because they would want to be certain that it reached the proper person by the deadline. Most participants

⁴ This question was not asked of participants in the fourth round because if a refinancing transaction were cancelled, the creditor would still have the right to take their home for failure to repay the previous loan.

said they would give the notification to a manager or loan officer, or would inquire about which employee should receive the notification.

- Of the participants who indicated that they would send their notification of cancellation by e-mail, most said they would sign the cut-off portion of the notice, scan the entire notice, and attach it to the e-mail message.

Understanding of Cancellation Deadline

- In the first round of testing, half of the participants misidentified the deadline by which they would have to cancel their transaction. In some cases participants mistakenly counted a federal holiday toward the rescission period, or did not count Saturday. One participant was confused as to whether midnight of a given day represented the beginning of the day or the end of the day. Several participants in this round commented that the “Deadline to Cancel” section of the notice would be easier to understand if a calendar date was provided, rather than instructions for determining the deadline. For these reasons, at least one of the two notices tested in each following round included a calendar date for when the rescission period would end.
- Participants in the second round were shown two notices. One used language similar to that used in the current notice of the right to rescind: a description of the three events, the latest of which would trigger the rescission period. The other notice included the description of the three events but it also included a calendar date by which the borrower could cancel if all three events happened by a certain date (i.e., “If all borrowers sign the loan documents on January 19, 2010, and you receive your Truth in Lending disclosures and this notice by that date, you must submit your cancellation notice by 11:59 p.m. on January 22, 2010”). When asked about the deadline to cancel if all three events happened by the date specified in the notice, most participants correctly determined the deadline to cancel. However, the general understanding of the deadline to cancel remained low when asked about dates other than those specifically listed on the notice. For example, only two of six participants were able to correctly identify what their rescission deadline would be if they opened their account on the day of the interview. One participant thought that the deadline stated in the notice was a hypothetical example with little relevance to that borrower. Nonetheless, most participants expressed their preference for being given a calendar date as the deadline to cancel instead of having to calculate the deadline based on the three events. Therefore, ICF Macro and Board staff decided to test a version of the notice in the following round that provided only a specific calendar date as the deadline while simplifying the language.
- As in the second round, participants in the third round were shown two notices. Again, one used language similar to that used in the current notice of the right to rescind: a description of the three events, the latest of which would trigger the rescission period, while the other provided a description that included a calendar date for cancellation, without an explanation of how that date was determined. The language that was used in the latter notice was very simple (i.e., “If you want to cancel this line of credit, you must do so on or before March 26, 2010”). Most participants in this round expressed a preference for the notice that provided a calendar date, and testing results from this round implied that this notice was generally easier for participants to understand. Therefore, ICF Macro and Board staff decided that the rescission notice should include a calendar date by which cancellation would have to take place, and should not include language describing the three events. This decision was validated during testing in the fourth round, and the model notices that the Board intends to publish for comment use this format.

- In some cases, the inclusion of a calendar date as the deadline was misleading to participants. Some incorrectly assumed that the deadline shown on the notice would always apply, when in fact there are situations when the deadline could change for reasons that are outside of the borrower’s control. For this reason, the Board decided to require that creditors provide a new rescission notice if the deadline changes from the date shown in the original notice. A model notice that could be used for this purpose was successfully tested in the third round.

Acknowledgement Line

- Participants were presented with a scenario in which they were given a packet of papers at closing and were told to sign or initial each page to show that they had received it. They were presented with a rescission notice as part of that packet that contained an “acknowledgment line” with a space for the consumer to initial and date to confirm receipt. Some participants in the first round of testing initially did not notice this line and said they would sign on the line that would indicate that they wanted to cancel the transaction. In all subsequent rounds, however, the vast majority of participants correctly indicated that they would initial the acknowledgement line.
- Participants in the first two rounds were asked to compare two different locations for the acknowledgment line: (1) at the top of the page and (2) near the bottom of the page immediately above the line participants would be sign to indicate their intent to cancel. Participants were almost evenly split as to which location they preferred. Those who preferred placement at the top said that location made the line more apparent or decreased the likelihood that consumers would confuse it with the line to cancel the transaction. Other participants preferred the acknowledgement line near the bottom, either because they were used to looking for an acknowledgement line at the bottom of forms or because they wanted to read the information on the page before acknowledging receipt.
- Although participants were split in their preferred location for the acknowledgement line, after the second round of testing ICF Macro and Board staff decided to place this line at the bottom of the notice. ICF Macro and Board staff were concerned that placing the line at the top of the page might encourage borrowers to initial the form without reading the information on the page. Also, because other changes to the notice (such as the addition of a cut-off section for the consumer to notify the creditor of the cancellation) seemed to clarify the difference between the signature line for cancellation and the acknowledgement of receipt line, there seemed to be little danger of consumers confusing the two lines if they were both located at the bottom of the notice.

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 so through Regulation Z.

TILA and Regulation Z provide that, unless the transaction is exempted, a consumer has a right to rescind a consumer credit transaction in which a security interest is or will be retained or acquired in a consumer's principal dwelling. Thus, under TILA consumers have the right to cancel (or "rescind") certain home-secured transactions. This right of rescission was created to allow consumers time to reexamine their credit contracts and cost disclosures and to reconsider whether they want to place an important asset—their home—at risk by offering it as security for the credit.

In a transaction subject to the right of rescission, TILA requires that consumers be given a notice of the right to rescind. The notice must disclose that the creditor has a security interest in the consumer's home, that the consumer may rescind, how the consumer may rescind, the effects of rescission, and the date the rescission period expires. The rescission period generally expires at midnight after the third business day following the latest of three events: (1) consummation of the transaction, (2) delivery of material TILA disclosures, or (3) receipt of the required notice of the right to rescind.⁵ To exercise the right of rescission, the consumer must send notification to the creditor or the creditor's agent designated on the notice provided by the creditor.

Since 2004, the Board has been 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 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 the design and testing of rescission notices. Since August 2009, ICF Macro has conducted four rounds of one-on-one cognitive interviews on this topic with a total of 39 participants. For each round, ICF Macro developed a set of model rescission notices to be tested. Interview participants were asked to review these notices 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 notice were most successful in communicating information clearly and effectively. The findings from each round of interviews were incorporated in revisions to the model notices for the following round of testing.

⁵ Material TILA disclosures consist of the finance charge, the annual percentage rate, the total of payments, the payment schedule, the amount financed, and the disclosures and limitations for loans covered by the Home Ownership and Equity Protection Act (HOEPA).

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

Methodology

Testing of the model rescission notices was carried out through four rounds of interviews held in different locations, as shown in Table 1. Before each round of interviews, ICF Macro developed model notices for testing. In many cases, multiple versions of the model notice were developed so 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 notice design and layout. These results were then used to revise the model rescission notices for use in the next round of testing.

Table 1: Timeline of Cognitive Testing

| | Location | Dates | Number of Interviews |
|---------|--------------|---------------------|----------------------|
| Round 1 | Bethesda, MD | November 4–5, 2009 | 10 |
| Round 2 | Tampa, FL | January 19–20, 2010 | 11 |
| Round 3 | Phoenix, AZ | March 23–24, 2010 | 10 |
| Round 4 | Memphis, TN | April 16, 2010 | 8 |

Participants in each round were recruited by telephone using a structured screening instrument in order to ensure the selection of a range of participants in terms of 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 rescission notices 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 rescission notice that would be given to borrowers who were refinancing a closed-end mortgage with the original creditor and were borrowing additional funds.⁶ For that round, participants had obtained a mortgage in the past two years. The recruitment instrument used for that round is included as Appendix B of this report. A summary of 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 structure of these interviews was very similar. Participants were given a rescission notice 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 notice to determine how well they could

⁶ TILA exempts purchase-money loans and transactions in which a consumer refinances a home-secured loan with the original creditor and incurs no additional debt beyond the cost of refinancing the transaction—that is, where no “new money” is advanced. For testing purposes, participants were asked to assume that additional funds would be borrowed beyond the amount of the outstanding mortgage debt that the borrower had prior to refinancing.

find and interpret the content. The participants were then given a new notice to review, and the interviewer would take them through the same process.

Variations in the interview protocol, as well as a description of the rescission notices that were shown to participants, are provided in the description of each round of findings in Chapter III.

Chapter II: Guiding Principles for Disclosure Design

ICF Macro's design of rescission notices 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 such as the rescission notices are useful and understandable to their intended audiences. At the same time, there are also a number of principles to which ICF Macro's designers try to adhere whenever they are engaged in such projects. The principles that were most relevant to this work on rescission notices 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. In the context of rescission notices, the most important pieces of information are that borrowers have the right to cancel, how they can cancel, and by when they will have to do so.
- **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 structure used in most of the rescission notices tested was based on earlier disclosures developed by the Board and ICF Macro for HELOCs, closed-end mortgages, and checking account overdraft policies.

Chapter III: Testing of Revised Rescission Notices

Interviews in Bethesda, MD (November 2009)

The first round of 10 cognitive interviews was conducted in Bethesda, MD on November 4 and 5, 2009. Two different versions of rescission notices were used in this round of testing. The two versions (RN-1 and RN-2) differed in the following three ways:

- RN-1 provided information primarily in narrative format (paragraphs of text), while RN-2 provided information in tabular format.
- In RN-1, the “acknowledgment line” that consumers could initial and date to indicate that they had received two copies of the notice was located on the bottom of the page, while in RN-2 it was located at the top.
- In RN-2, the four different ways that consumers could contact the creditor to let them know that they wished to rescind were provided in bulleted form. RN-1 provided this information as a paragraph, with no bullets.

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

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

Key Interview Findings

Shopping for HELOCs

- Nine of the 10 participants had obtained HELOCs. The remaining participant said that she 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.

Prior Awareness of the Right of Rescission

- Before they were shown any rescission notices, four of the 10 participants understood that they would have some period of time after they opened a HELOC during which they could cancel it. Of these four, two knew that they would have three days to cancel, one incorrectly thought he would have 15 to 30 days to cancel, and the other indicated that he did not know the time limit.
- The remaining participants did not know that consumers who opened a HELOC could rescind. One knew that a right of rescission was provided for some financial agreements (such as buying a car), but was not sure whether the same applied for HELOCs.
- Those who did not know of the right of rescission indicated that if they decided the day after opening a HELOC that they did not want it, they would call the creditor to ask about the options available to them.

Review of Rescission Notices (RN-1 and RN-2)

General Understanding of the Right to Cancel

- All participants understood that the main point of the notice was to inform them that they had the right to cancel their transaction.
- Four of the 10 participants understood that the creditor was informing them that they have the right to cancel the transaction because of a federal law. Others thought that the creditor chose to give its customers this right; one said that it was a “service offered by the bank so you could reconsider,” and another commented that because opening a HELOC is a “big decision,” the creditor gives its customers time to “make sure [they] are ready.” One participant said that the creditor used the rescission period to perform research to protect itself from originating bad loans or loans to consumers with bad credit.
- When participants were asked why someone might want to cancel a HELOC, they provided a variety of reasons, including acknowledgement that a consumer was financially over-committed, a change in personal circumstances (death, sickness, or concern about job status), or a last-minute change of mind.

Security Interest

- When participants were asked what would happen if they did not make the payments on their HELOC, nine of the 10 understood that the creditor could take their home. Seven of those nine participants saw this information in the notice, but all nine seemed to understand even before reading the document that the creditor had this right. Four of the five who were shown RN-2 first found this information, along with three of the five who were shown RN-1 first.
- The notice stated that by opening the account, the consumer was giving the creditor the right to take his or her home if they “cannot repay the money they owe or otherwise default.” When participants were asked, nine of 10 were unable to explain what the phrase “otherwise default” meant, or to provide examples of when the creditor might take their home other than failure to pay. One participant commented that falsification of information on a loan application might be an example of “otherwise default.”
- All participants understood that if they cancelled the line of credit within three days of signing the final papers the creditor would no longer have the right to take their home.

Fees

- Only three of the 10 participants saw in their initial review of the notice that they would not be charged a fee for cancelling their HELOC; other participants guessed that they would not be charged a fee but did not see this information in the notice. All three participants who saw the information were shown RN-2 first; none of the participants who were shown RN-1 first found this information on the notice.
- Participants were asked whether they would be refunded a \$25 fee they had paid for a credit check (i.e., to a third party) if they rescinded. Even though the notice stated that “We must refund to you any fees you paid to open the line of credit,” only six of the 10 participants (three who were shown RN-1 first and three who were shown RN-2 first) understood that they could get this fee back. One of them commented that this fee would not be refunded because the

creditor had already performed the services for which the fee was charged. One participant was confused by this sentence and thought that she might be required to refund money to the creditor in order to cancel.

Understanding of How to Cancel

- All but one of the participants were able to easily identify the four ways they could contact the creditor to indicate that they wanted to cancel—mail, fax, e-mail, or in person. The one participant who did not initially answer the question correctly saw only the e-mail and mail options; this participant was shown RN-1.
- When participants were asked which method they would most likely use to cancel their HELOC, they had mixed responses. Several participants expressed concerns about submitting notification of cancellation by mail (i.e., dropping it in the mail box) because of the difficulty of proving that the notification was sent by the deadline. For this reason, several participants said that if they were mailing notice of cancellation to the creditor, they would be sure to send it registered or certified, or use a service such as an overnight carrier.
- Although there was no agreement upon which delivery method was preferred, several participants said they would notify the creditor using at least two methods of delivery to make sure that the creditor received their notification of cancellation by the deadline.
- All participants indicated that if they were delivering their notification of cancellation in person, they would not place it in the creditor’s drop box or give it to a bank teller because they would want to be certain that it got to the proper person by the deadline. Most said that they would give the notification to a manager or loan officer, or would inquire what employee should receive the notification.
- Of the participants who indicated that they would send their notification of cancellation by e-mail, most said that they would sign the cut-off portion of the notice, scan the entire notice, and attach it to the e-mail message.
- Eight of the 10 participants understood after their first review of the notice that if they wanted to cancel their HELOC, they could use the notice they were reading to notify the creditor. The remaining two did not realize that the notice they were reading could be used as the actual notification of cancellation.
- Seven of the 10 participants understood that they could write their own notification to the creditor to indicate that they wanted to cancel the HELOC. One misinterpreted the text that stated they could sign, date, and return to the creditor “another notice that indicates you are cancelling your line of credit.” This participant thought this meant that the creditor had posted a different pre-printed form on its website to download and send in as an alternative. The remaining two did not see the reference to “another notice,” and assumed that their only option was to return the notice they had been given.
- Some participants thought they had to use the notice provided and another notice to exercise their right to cancel. Once it was explained to them that they had the choice to either return the rescission notice or prepare and return another document, all participants said they would most likely use the rescission notice. One person said that it looked “more official,” and another said

that he would use the pre-printed notice because it had been prepared by the creditor and, therefore, he could be sure that the creditor would recognize his exercise of the right upon receipt.

- All participants said they would keep a copy of the notification of cancellation they send to the creditor. About half of participants saw the instruction on the notice to keep a copy, but it was unclear if it was this sentence that led them to say they would keep a copy.

Understanding of Cancellation Deadline

- When asked what the cancellation deadline would be if the account-opening papers were signed and returned to the creditor on Thursday, November 5, half of the participants correctly identified the deadline as midnight on Monday. Even though the notice specifically stated that Sundays and federal holidays were excluded, four participants did not count Saturday, and thus calculated incorrectly that the deadline would be midnight on Tuesday. The tenth participant was confused as to whether midnight of a given day represented the beginning of the day or the end of the day.
- Participants generally understood from reading the notice that federal holidays would not count when calculating the rescission deadline. When asked to calculate the rescission deadline when the period included Veterans Day, about half of participants answered incorrectly. However, in all cases it was because the participants did not see that the Wednesday on the calendar provided was marked “Veterans Day” or they were not certain whether Veterans Day is a federal holiday, and not because they misunderstood how federal holidays would be treated in this context.
- Even though the notice stated that the notification of cancellation had to be “sent” (via mail, fax, or e-mail) or “delivered” (if in person) to the creditor by the rescission deadline, many participants incorrectly assumed that it had to be received by creditor by the deadline.
- Participants generally thought that if the notification of cancellation was placed in a mailbox or drop box at 11:30 p.m. on the third day, but was not picked up until after the deadline, it would not be submitted on time. Generally, participants felt that they would need to be able to prove that they had met the deadline through a method such as a postmark or receipt, and if they could not, the creditor would not consider the notification as submitted on time.
- Participants were asked when their deadline for cancellation would be if they had received the rescission notice and loan documents on a Wednesday but did not sign the loan documents until Friday. Only two of the 10 participants referred to the statement on the notice stating, “If you receive this notice before you have signed the final documents to open your line of credit, the deadline for your right to cancel may be later than the date given above.” Other participants thought that their deadline would still be midnight after the third day following their receipt of the notice, or were unsure how the deadline would be determined.
- All participants indicated that if they wanted to cancel their line of credit, they would call the telephone number provided on the notice to get the exact deadline before doing so.
- All participants said they would prefer that the rescission notice identify a calendar date by which they would have to cancel, rather than simply providing instructions for determining when the deadline would be. Most said they wanted to avoid “doing the math” or “calculations.” Others commented that a date certain would remove the “guess work” involved in making the

calculation. Another participant pointed out that a date certain would help her to avoid making a mistake (i.e., incorrectly excluding a Saturday or incorrectly counting a federal holiday).

Release of HELOC Funds

- After reading the notice, only two of the 10 participants understood that they would not have access to any funds from their account until the rescission period ended. Five others thought that there would be some waiting period before they had access to the funds, but they did not connect this waiting period to the right of rescission. Several of these participants thought that the creditor was engaged in administrative action related to opening the account or was reconsidering whether to extend the loan during the delay in funding. The remaining three participants incorrectly assumed that they would have access to their funds within 24 hours of signing the papers for a line of credit.
- Participants were asked what would happen if the creditor released to them funds from their account, but they had already sent notification of cancellation to the creditor. All correctly indicated that their cancellation would still be valid, despite the fact that they had received funds. Most stated that they would have to return any funds that had been released.

Acknowledgement Line

- Participants were presented with a scenario in which they were given a packet of papers and told to sign or initial each page to show that they had received it. They were presented with a rescission notice as part of that packet, and were asked where on the page they would sign or initial that notice. While most participants indicated that they would initial on the acknowledgement line provided, four said that they would sign on the line that indicated they wanted to cancel their transaction. Three of the four quickly realized their mistake, but one continued to confuse the two lines, even after re-reading the notice. Of the four who initially made this mistake, two had reviewed RN-1 first and two had reviewed RN-2 first.
- All but one participant understood that initialing the acknowledgement line indicated only that they had received two copies of the notice, while signing on the signature line indicated that they wanted to cancel the transaction.

Comparison of RN-1 and RN-2

- All but one participant indicated that they preferred the tabular layout of RN-2 to the narrative layout of RN-1. Participants commented that this format seemed more organized and easier to follow. Several specifically commented that they liked the section headings in the left-hand column of the table in RN-2.
- Participants were split as to where the acknowledgement line should be located on the notice. Four thought the line should be at the top of the page, as shown on RN-2, so that consumers would be less likely to confuse it with the signature line. However, four others thought that the acknowledgement line should be at the bottom of the notice, as shown on RN-1, either because they found it a more logical location (since it would encourage consumers to read through the notice before initialing), or because the proximity of the signature and acknowledgement lines to each other would make it clearer that consumers should only sign one of the two lines. Two participants had no preference for the location of the acknowledgement line.

- All participants preferred the “How to Cancel” section of RN-2 because it presented the four different ways to return the rescission notice (mail, e-mail, fax, or in person) in a bulleted list, rather than as a paragraph.

Subsequent Design Decisions

- All but one participant preferred the tabular format of RN-2 to the narrative format used in RN-1. In addition, participants were more likely to notice information provided in RN-2 than in RN-1. For example, three of the five participants who reviewed RN-2 first noticed that they would not be charged a fee for cancelling the account. None of the participants who reviewed RN-1 first noticed this information. Therefore, a tabular format was used in all subsequent versions of the notice.
- Several participants commented that the “Deadline to Cancel” section would be easier to understand if a calendar date deadline was provided, rather than instructions for determining the deadline. Comprehension of this section was low for participants in this round; many were not able to correctly identify their rescission deadline. For these reasons, one of the two notices tested in the following round (RN-4) included a calendar date for when the rescission period would end.
- Because participants were divided on whether the acknowledgment line should be located at the top or the bottom of the notice, this variable was tested again in the following round.
- Participants preferred to have the different cancellation methods provided as a bulleted list (as in RN-2) rather than a block of text (as in RN-1). Therefore, bullets were used in all subsequent notices.
- Because nearly all participants were unable to explain the phrase “otherwise default” or provide any examples of what such a default might be, this phrase was removed from all subsequent notices.
- Because only three of 10 participants understood after reading the notices that they would not be charged a cancellation fee, and only six understood that any fees they had paid to obtain the HELOC would be refunded to them if they cancelled the transaction, in subsequent notices this information was disclosed more prominently in a separate row labeled “If You Cancel.”

Interviews in Tampa, FL (January 2010)

The second round of 11 cognitive interviews was conducted in Tampa, FL on January 19 and 20, 2010. Two different versions of rescission notices were used in this round of testing. The two versions (RN-3 and RN-4) differed in the following two ways:

- On RN-3, the acknowledgement line where consumers would put their initials to indicate that they had received two copies of the notice was located at the top of the page. On RN-4 the acknowledgement line was located at the bottom, just above the signature line for cancelling.
- The deadline for cancelling was described differently on the two notices, as indicated below:
 - On RN-3, the deadline for cancelling was described as follows:

If you want to cancel your line of credit, you must submit your cancellation notice by 11:59 p.m. on the third day (Monday through Saturday, except federal holidays) following the latest of:

- (1) the opening date of your account, which is January 19, 2010; or*
- (2) the date you received the final Truth in Lending disclosures; or*
- (3) the date you received this notice.*

Please call us at 1-800-555-1234 for the exact deadline.

- RN-4 contained a more detailed explanation of the deadline for cancelling:

If you receive this form before you sign the loan documents and you sign the loan documents:

- *On or before January 19, 2010—you must submit your cancellation notice by 11:59 p.m. on **January 22, 2010.***
- *After January 19, 2010—you must submit your cancellation notice by 11:59 p.m. on the third day (Monday through Saturday, except federal holidays) after you sign the loan documents.*

If you receive this form after you sign the loan documents, you must submit your cancellation notice by 11:59 p.m. on the third day (Monday through Saturday, except federal holidays) after you receive this form.

These deadlines may be different if you are not the only borrower. Please call us at 1-800-555-1234 for the exact deadline.

One significant difference between the notices used in the first and second rounds was that the revised notices in the second round included a cut-off section at the bottom of the page that could be submitted to the creditor as a notification of cancellation. This cut-off section was included to make it easier for borrowers to retain the rest of the information on the notice if they decided to rescind.

As in the first round, participants were shown both RN-3 and RN-4, with half of the participants seeing RN-3 first and the other half seeing RN-4 first. Again, they were first asked to read each notice while thinking aloud, and were then asked to answer a series of questions to test their understanding of the content of the notice.

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

Key Interview Findings

Shopping for HELOCs

- Ten of the 11 participants had obtained HELOCs. The remaining participant had a home equity loan, but had considered getting a HELOC instead.
- All the participants who had gotten HELOCs said the process to obtaining one was relatively easy.

Prior Awareness of Right of Rescission

- Before participants were shown any rescission notices, six of the 11 understood that they would have some period of time after they opened a HELOC during which they could cancel it. One person said that once she had signed the papers she would assume that it was “a done deal.”
- Several participants who did not know of the right of rescission indicated that if they decided that they did not want a HELOC one day after opening it, they would call the creditor to ask about the options available to them.

Review of Rescission Notices (RN-3 and RN-4)

General Understanding of the Right to Cancel

- All participants understood that the main point of the notice was to inform them that they had the right to cancel their transaction.
- Only two of the 11 participants understood that the reason the creditor gave them the right to cancel their HELOC was that it was a federal law. Several answered that the creditor gave its customers this right in case they had “second thoughts;” one said, “Things happen; people change their minds.”
- When asked why someone might want to cancel a HELOC, participants provided reasons similar to those mentioned in the first round, including a concern about financial over-commitment or job loss.

Security Interest

- All but one participant understood that if they opened a HELOC and did not make payments, the creditor could take their home. Most, if not all, of the participants understood even before reading the document that the creditor had this right. However, most participants saw this information in the notice as well.
- All 11 participants understood that if they cancelled the line of credit within three days of signing the final papers, the creditor would no longer have the right to take their home. Nine of the 11 saw this information on the notice; the others did not see this reference on the notice but answered the question based on prior knowledge.

Fees

- All participants saw in their initial review of the notice that they would not be charged a fee for cancelling their HELOC.

- Participants were asked whether they would be refunded a \$25 fee they had paid for a credit check (i.e., to a third party) if they rescinded. Even though the notice stated that “We must refund to you any fees you paid to open the line of credit,” three of the 11 participants initially thought this fee would not be refunded.

Understanding of How to Cancel

- All but one of the participants were able to easily identify the four ways they could contact the creditor to indicate that they wanted to cancel—mail, fax, e-mail, or in person.
- When asked which method they would most likely use to cancel their HELOC, the participants had mixed responses. Most participants indicated that they would prefer fax or e-mail to the other methods, as they were relatively easy and would produce documentation of when notification had been sent.
- A few participants said that they would use more at least two methods of delivery to make sure that the creditor received their notification of cancellation by the deadline.
- As in the first round, all participants indicated that if they were delivering their notification of cancellation in person they would not to put it in a creditor’s drop box or give it to a bank teller. Most said that they would give their notification to the person they had worked with previously, or to another loan officer.
- All participants understood after their first reading of the notice that if they wanted to cancel their HELOC, they could sign and date the notice they were reading to notify the creditor.
- All participants also understood that instead of signing and dating the notice, they could write their own notification to the creditor to indicate that they wanted to cancel the HELOC. However, all participants indicated they would prefer to sign and date the rescission notice.
- All 11 participants said they would keep a copy of the notification of cancellation sent to the creditor. However, nine of the 11 did not initially see the instructions to do so on the rescission notice (i.e., “Keep a copy of this form because it contains important information about your rights”).

Understanding of Cancellation Deadline

- When asked what the cancellation deadline would be if the account-opening papers were signed and returned to the creditor “today,” only four of the 11 participants initially answered correctly (two who were shown RN-3 and two who were shown RN-4). Several participants incorrectly did not count Saturday towards the deadline, while two incorrectly counted the day they opened their account as Day 1. One participant who was reading RN-3 commented that he was confused by the “later of” language related to the deadline.
- Only four of the 11 participants were able to correctly determine the deadline when a federal holiday (Martin Luther King Jr. Day) was included in the time period, even though all participants were shown a calendar that identified Martin Luther King Jr. Day as a federal holiday. Of these four, three were reviewing RN-4 and one was reviewing RN-3. Other participants thought the deadline was sooner because they incorrectly counted the holiday, Sunday, or the day they opened their account towards the deadline. One participant who was reading RN-3 was confused by the “later of” language related to the deadline.

- As in the first round, several participants incorrectly assumed that the notice had to be received by the deadline, even though the notice stated that the notification of cancellation had to be “submitted” by the rescission deadline.
- Nine of the 11 participants believed that they would miss the deadline if they dropped the notice in a mail box at 11:30 p.m. on the third day, because they would have no evidence that they had mailed the notification on time.
- Nine of the 11 participants said they would likely call the toll-free number to determine the exact deadline for rescission, if the creditor provided such a number on the notice.
- All participants who received RN-4 first were able to correctly answer that the “countdown” toward a deadline would not start until the last co-borrower had signed. Those who received RN-3 first were not able to answer questions addressing a co-borrower scenario.⁷
- All participants said they would prefer that the rescission notice identify a calendar date by which they would have to cancel, rather than providing instructions or a formula for determining the deadline.

Release of HELOC Funds

- After reading the notice, seven of the 11 participants understood that they would not have access to any funds from their account until the rescission period ended. Two others said that there would be some waiting period before they had access to the funds, but their responses were not based on anything they had read on the notice. The remaining two participants incorrectly assumed that they would have access to funds within 24 hours of signing the papers for a line of credit.
- Participants were asked what would happen if the creditor released to them funds from their account, but they had already sent notification of cancellation to the creditor. As in the previous round, all correctly indicated that their cancellation would still be valid, despite the fact that they had received funds. All participants also understood that would they have to return any funds that had been released.

Acknowledgement Line

- As in the previous round, participants were given a scenario in which they received the rescission notice as part of a packet of papers they were signing to open their account, and were told to sign or initial each page to show that they had received it. Unlike in the previous round, all participants indicated that they should initial the acknowledgement line to indicate receipt of the notice.
- All participants understood that initialing the acknowledgement line indicated only that they had received two copies of the notice, while signing on the signature line indicated that they wanted to cancel the transaction.

⁷ RN-4 noted that rescission deadlines “may be different if you are not the only borrower.” RN-3 did not include this language.

Comparison of RN-3 and RN-4

- When participants were asked which wording for the “Deadline to Cancel” section they felt was clearer, eight of the 11 indicated that they preferred the wording of RN-4 to that of RN-3. Among those who preferred RN-4, several liked that the notice provided a specific calendar date for the deadline; one commented: “The deadline to cancel is certain.” Another participant liked that RN-4 provided an “example” of a deadline if you opened the account on a certain date. A third participant liked that the deadline on RN-4 was displayed prominently in boldface type. Of the three participants who preferred RN-3, one said she found it easier to understand, while another indicated that he found it more “concise.” The third participant found the deadline example provided in RN-4 confusing.
- Participants were almost evenly split as to where the acknowledgement line should be located on the notice, as indicated below.
 - Six of the 11 thought the line should be at the top of the page, as on RN-3. Of these six, some thought the acknowledgement line was easier to notice at the top of the page. Another participant commented that he liked the line at the top because it “instructs” borrowers as to what they are supposed to do. Two participants were concerned that if the acknowledgement line was located at the bottom of the notice, as on RN-4, borrowers might confuse it with the signature line to cancel the line of credit.
 - The remaining five participants preferred the acknowledgement line near the bottom of the page, as on RN-4. Some thought that consumers would be less likely to notice the line at the top of the page. Others commented that it made more sense for the line to come after the information about their right to cancel, so that they could read the content before acknowledging that they had received the notice.

Subsequent Design Decisions

- Although participants in the first two rounds were very evenly split as to whether they preferred the acknowledgment line at the top or bottom of the notice, following this round, ICF Macro and Board staff decided to locate the acknowledgement line at the bottom (as on RN-4) on all subsequent versions of the notice. These staff were concerned that locating the line at the top of the page might encourage borrowers to initial without reading the information on the page. Also, because other changes to the notice (such as the addition of a cut-off section for the consumer to notify the creditor of cancellation) seemed to clarify the difference between the signature line for cancellation and the acknowledgement line, there seemed to be little danger of consumers confusing the two lines if they were both located at the bottom of the notice.
- Several participants commented that they preferred the wording of the “Deadline to Cancel” section on RN-4 to that of RN-3, because RN-4 provided a calendar date by which they would have to cancel. At the same time, the wording of RN-4 still seemed to confuse some participants—for example, only two of six were able to correctly identify their rescission deadline if they opened their account on the day of the interview. Therefore, ICF Macro and Board staff decided to test a version of the notice in the following round (RN-6) that provided a calendar deadline using simpler language than was used in RN-4.

Interviews in Phoenix, AZ (March 2010)

The third round, consisting of 10 cognitive interviews, was conducted in Phoenix, AZ on March 23 and 24, 2010. Three versions of rescission notices (referred to as RN-5, RN-6, and RN-7) were used in this round of testing. RN-5 and RN-6 were identical, except that the deadline for cancelling was described differently on the two notices, as shown below:

- On RN-5, the deadline for cancelling was described as follows:

If you want to cancel your line of credit, you must place your cancellation notice in the mail or submit it by fax, email, or in person by 11:59 p.m. on the third day (Monday through Saturday, except federal holidays) after the latest of:

- (1) the day you sign your loan documents (or the day the last borrower signs the loan documents, if you are not the only borrower); or*
- (2) the day you received the final Truth in Lending disclosures; or*
- (3) the day you received this notice.*

- RN-6, on the other hand, provided a calendar date for the deadline:

If you want to cancel this line of credit, you must do so on or before March 26, 2010.

Unlike previous notices that had been tested, RN-7 was the model for a notice that would be sent to borrowers after closing to inform them that their rescission deadline had changed from that shown in the original notice. It was exactly the same as RN-6, except that (a) the deadline was March 29 instead of March 26; and (b) RN-7 included the following text at the top of the page:

****You are receiving this notice because the deadline to cancel your line of credit has changed from March 26, 2010 to March 29, 2010. Please refer to the "Deadline to Cancel" section below.****

Unlike notices used in previous rounds, all three notices used in this round included a reference to an extended right of rescission for borrowers:

If your Truth in Lending disclosures or this notice has been delivered later or is incorrect or incomplete, you may have up to 3 years to cancel this line of credit.

All participants were shown RN-5, RN-6, and RN-7. The order in which RN-5 and RN-6 were shown to participants was rotated, with half of the participants seeing RN-5 first and the other half seeing RN-6 first. All participants were shown RN-7 last. As in previous rounds, participants were first asked to review each notice while thinking aloud, and were then asked to answer a series of questions to test their understanding of the content of the notice.

RN-5, RN-6, and RN-7 are provided in Appendix D of this report.

Key Interview Findings

Shopping for HELOCs

- Eight of the 10 participants had previously obtained HELOCs. Of these eight, all said that the process of obtaining a HELOC was relatively easy.

Prior Awareness of Right of Rescission

- Before they were shown any rescission notices, only one of the 10 participants understood that they would have some time after they opened a HELOC during which they could cancel it. When asked what they would do if they decided the day after opening a HELOC that they did not want it, most participants indicated that they would call the creditor to ask if they could get out of the agreement. A few assumed that they would have no choice—that once they signed the papers they would be “stuck” with the loan.

Review of Rescission Notices (RN-5 and RN-6)

General Understanding of the Right to Cancel

- All participants understood after reading the notice that they had the right to cancel their transaction.
- Only one of the 10 participants understood that the reason the creditor gave them the right to cancel their HELOC was that it was a federal law. Other participants assumed that the creditor provided this right to customers in case they had “buyer’s remorse” or “second thoughts.”

Security Interest

- All participants understood that if they opened a HELOC and did not make payments, the creditor could take their home. Unlike in previous rounds, all participants saw this information on the notice.
- All but one participant understood that if they cancelled the line of credit within three days of signing the final papers the creditor would no longer have the right to take their home. However, only five saw this information on the notice.

Fees

- Seven of the 10 participants saw in their initial review of the notice that they would not be charged a fee for cancelling their HELOC. The other three participants incorrectly thought they would be charged a fee for doing so.
- Participants were asked whether they would be refunded a \$25 fee they had paid for a credit check (i.e., to a third party) if they rescinded. All but two understood after reading the notice that this fee would be refunded; the other two incorrectly thought it would not.

Understanding of How to Cancel

- All participants understood that they could contact the creditor to indicate that they wanted to cancel in person or by mail, e-mail, or fax.
- When participants were asked whether it would be a problem for them if the creditor required that notification of cancellation be provided through e-mail, two indicated that it would be because they have limited access to computers. Several others said it would not be a problem for them, but that it might be for some people.
- Two participants indicated that if they delivered their notification of cancellation in person they might give it to a bank teller; others said they would not. Most participants said they would give

their notification to the person they had worked with to open the account, or to a manager; none would put it in a creditor's drop box.

- All but one participant understood that to notify the creditor of their intention to cancel, they could either sign and date the cut-off section of the notice or write their own notification to the creditor. Almost all participants said they would send the cut-off section rather than their own notification, although two said they would send both to make sure that the creditor received their notification of cancellation by the deadline.
- All participants said that if they sent the bottom half of the notice to the creditor they would keep a signed copy for themselves. However, three people did not see the instruction to do so on the notice.

Understanding of Cancellation Deadline

- When reviewing RN-5, participants were asked what the cancellation deadline would be if they opened the account that day. Just over half of participants were able to correctly identify the cancellation deadline. Three participants incorrectly counted the day they signed the papers as the first day toward the deadline, and therefore thought the deadline was a day earlier than it actually was. One participant initially thought that she would always have three years to cancel, because the notice stated: "You may have up to 3 years to cancel this line of credit."
- Participants were also asked what their cancellation deadline would be according to RN-6 if they opened the account that day. All five participants who were interviewed on March 23 said that the deadline for cancellation would be March 26, which was the date shown on the notice and also three days after they would have opened the account. Of the five participants who were interviewed on March 24, four said that the deadline for cancellation was March 26, because that was the date listed on the notice. The fifth—who had prior knowledge of rescission periods—thought that he would have three days to cancel, and therefore despite what it said on the notice his deadline would be March 27.
- While participants were looking at RN-6 they were asked whether it would impact their deadline if they waited several days before signing the account-opening papers. Half of the participants indicated that it would not—in all cases their deadline would be the date stated on the notice. The other half of participants said that in this situation their deadline might be different from that shown on the notice. Most of these participants indicated that they did not know exactly what their deadline would be, and they would call the creditor to find out. The one participant with prior knowledge of rescission periods indicated that his deadline would always be three days after he opened his account.
- All but one participant said that if they faxed their notice of cancellation at 11:30 p.m. on the day of the deadline, their cancellation would still be valid. The remaining participant thought that because the fax would arrive after business hours, it would be considered late.
- Regardless of which version they were shown, all participants indicated that they would have missed the deadline if they dropped the notice in a mail box at 11:30 p.m. on the last day before the deadline, because they would have no evidence that they had mailed the notification in time.
- Two participants expressed concern about the effect of time zones and daylight savings time on the deadline.

Extended Right of Rescission

- Participants were asked what they would do if, a month after they had opened their account, they noticed that the interest rate had been stated wrong on their account-opening statements. All indicated that in this case they would contact the creditor, either by phone or in person.
- When the participants were asked whether they would have the right to cancel their account in this situation, four of the 10 referred to the statement on the notice indicating that their right to rescind could be extended for up to three years if their disclosures were incorrect or incomplete. The other six participants did not mention this statement on the notice.
- As noted above, one participant misunderstood the text about the extended right of rescission, and incorrectly thought that she would have three years to cancel her account in all cases.

Release of HELOC Funds

- After reading the notice, only two participants understood that they would not have access to any funds from their account until the rescission period ended. Six participants said there would be some waiting period before they had access to the funds, but their responses were not based on anything they had read in the notice. The remaining two participants incorrectly assumed that they would have access to funds within 24 hours of signing the papers for a line of credit.
- As in previous rounds, participants were asked what would happen if the creditor released funds from their account to them, after they had already sent notification of cancellation to the creditor. All understood that their cancellation would still be valid, despite the fact that they had received funds.

Acknowledgement Line

- As in previous rounds, participants were given a scenario in which they received the rescission notice as part of a packet of papers they were signing to open their account, and were told to sign or initial each page to show that they had received the notice. Eight of the 10 participants said that they would initial the acknowledgement line on the notice. One indicated that he would sign the line at the bottom of the notice, not realizing that doing so meant he wanted to cancel his account. The remaining participant said he did not see any information on the notice about where to initial.
- Of the eight participants who had indicated they would initial the acknowledgement line, all understood that initialing this line did not mean that they were giving up their future right to cancel their account.

Comparison of RN-5 and RN-6

- Participants were asked to compare the wording of the “Deadline to Cancel” section in RN-5 and RN-6. Seven of the 10 participants preferred the wording of RN-6 because they found it simpler and easier to understand. Two participants preferred RN-5, in both cases because they thought it provided more specific information. The final participant did not have a preference between the two notices; he thought RN-5 was “too complicated” but RN-6 was “too simple.”

Review of RN-7

- All but one participant understood that the purpose of RN-7 was to inform them that their deadline for cancellation had changed. However, several people were confused by the notice because they did not understand why their deadline would have changed.
- Participants who were confused by the notice said they would contact their creditor to get clarification as to what it meant.
- One participant incorrectly assumed that she would not be able to cancel after receiving this notice. She believed that the deadline on the previous notice she had received (RN-6) would still apply.

Subsequent Design Decisions

- Most participants in the first three rounds of testing expressed a preference for a calendar date as the cancellation deadline on the notice. In addition, testing results from this round implied that providing a calendar date generally made it easier for participants to understand their cancellation deadline. For these reasons, ICF Macro and Board staff decided to provide such a deadline (as on RN-6 and RN-7).
- In some cases, the deadline provided on RN-6 was misleading to participants. For example, some incorrectly assumed that the deadline shown on the notice would always apply, even if there was a delay in opening the account. For this reason, the Board decided to require that creditors provide a new rescission notice (similar to RN-7) if the deadline changes from that shown in the original notice.

Interviews in Memphis, TN (April 2010)

The fourth round of eight cognitive interviews was conducted in Memphis, TN on April 16, 2010. Only one notice (referred to as RN-8) was tested in Memphis. This notice was similar to RN-6, in that it provided a calendar date for the rescission deadline:

If you want to cancel this loan, you must mail, fax, e-mail, or deliver the bottom portion of this notice on or before April 20, 2010.

RN-8 is provided in Appendix D of this report.

The first three rounds tested rescission notices that would be given to borrowers opening a HELOC. However, RN-8 was a notice that would be given to borrowers who were refinancing a closed-end mortgage loan with their original creditor. Accordingly, references to a line of credit do not appear in RN-8. The recruiting criteria were also different for this round; all participants had obtained a mortgage in the past two years, and in four of the eight cases participants had obtained their mortgage to refinance an existing loan. The remaining four participants had obtained closed-end mortgages to finance the purchase of their home. Since purchase-money mortgages are exempt from the right of rescission, these four participants would not have received the notices of rescission in connection with their most recent mortgage transaction.

Key Interview Findings

Prior Awareness of Right of Rescission

- When the participants were asked before they read the notice what they would do if they decided the day after refinancing that they had made a mistake, two of the eight knew that they would have the right to cancel their new loan. Three indicated that they would contact the creditor to ask about their options, while one said he would contact an attorney. One participant said she did not know what she would do in such a situation, while the remaining participant indicated that there was “nothing” he could do at that point to get out of the new loan.

Review of Rescission Notice (RN-8)

General Understanding of the Right to Cancel

- All participants understood after reading the notice that they had the right to cancel their transaction. All of them also understood that they would be cancelling their new (i.e., refinanced) loan, and not the original loan with the same creditor.
- None of the participants understood that the reason the creditor gave them the right to cancel their transaction was that it was a federal law. Almost all of them indicated that the creditor gave its customers this right in case they had second thoughts or changed their minds. One participant thought that this might be required of all creditors, but she did not see this information in the notice.
- When asked why someone might want to cancel their loan, most participants mentioned a change in employment, such as job loss. Two participants said they might want to cancel the loan if they read their account-opening forms more closely after returning home and found terms they did not like.

Security Interest

- All participants understood that if they refinanced their loan and did not make the required payments, the creditor could take their home. A few did not see this information in the notice, but they understood anyway that the creditor had this right.

Fees

- All eight participants saw in their initial review of the notice that they would not be charged a fee for cancelling their loan.
- As in previous rounds, participants were asked whether they would be refunded a \$25 fee they had paid for a credit check (i.e., to a third party) if they rescinded. Four of the participants understood after reading the notice that this fee would be refunded; the other four incorrectly thought it would not.

Understanding of How to Cancel

- All participants understood that they could contact the creditor to indicate that they wanted to cancel in person or by mail, e-mail, or fax.
- When the participants were asked which of the four methods they would be most likely to use to notify the creditor of their desire to cancel, five of the eight indicated they would do so in person, two participants indicated they would send a fax and one said he would use e-mail.
- All participants said that if they delivered their notification of cancellation in person they would give it either to the person they had worked with to refinance the loan, or to another loan officer. All participants said they would not give their notification to a teller or put it in the creditor's drop box.
- All participants understood that in order to cancel their loan they would need to date the notice and return it to the creditor.^{8,9} Two participants incorrectly said that they would have to return the entire notice, as opposed to just the bottom half.

Understanding of the Cancellation Deadline

- When participants were asked what the cancellation deadline would be if they had completed their refinancing that day, they all referred to the deadline indicated in the notice (April 20, 2010).¹⁰
- All but one participant indicated that if they faxed their notice of cancellation to the creditor at 11:30 p.m. on the day of the deadline, their cancellation would still be valid. The remaining participant thought that because the fax would arrive after business hours, it would be considered late.

⁸ Unlike notices used in previous rounds, RN-8 only required that borrowers date the form to rescind; it did not require a signature.

⁹ Unlike notices used in previous rounds, RN-8 did not offer borrowers the option of preparing another document to inform their creditor of their decision to cancel.

¹⁰ The deadline provided in the notice was accurate if participants closed on their new loan on April 16, the day of the interviews.

- Half of the participants indicated that they would miss the deadline if they dropped the notice in a mail box at 11:30 p.m. on the last day before the deadline, because they would have no evidence that they had mailed the notification in time. The other half assumed that they would have met the deadline. One participant noted the statement in the notice that “in certain circumstances, your right to cancel this loan may extend beyond this date,” and used this as a rationale for why the notification might still be considered valid in this situation.

Acknowledgement Line

- As in previous rounds, participants were given a scenario in which they received the rescission notice as part of a packet of papers they were signing to refinance their loan, and were told to sign or initial each page to show that they had received the notice. All said that they would initial the acknowledgement line on the notice.

Subsequent Design Decisions

- Findings from this round of testing confirmed what had been learned through early rounds—most importantly, that providing a calendar date leads to improved understanding among borrowers of how long they have to rescind. Therefore, the proposed model notice published by the Board in July 2010 will be based very closely on RN-8.

Chapter IV: Summary

This report summarizes work conducted by ICF Macro in support of the Board's efforts to amend Regulation Z rules related to the disclosure of the right of rescission to consumers.

ICF Macro conducted four rounds of consumer interviews between November 2009 and April 2010 to test the effectiveness of revised rescission notices. Consumer testing informed Board staff's decision to propose a tabular format for the rescission notice, rather than the narrative format used in the current model forms. The tabular format increased participants' understanding of the fact that they would not be charged a fee for cancelling their transaction, and that any fees they paid would be refunded.

The most significant revision to the rescission notice is in the description of the deadline to cancel. Early rounds of testing found that the primary way in which the deadline is described in current model forms—as three “business” days after the latest of three events—was confusing to consumers and led to frequent misidentification of the deadline. Because of these findings, Board staff decided to simplify the language on the notice and provide only the calendar date by which cancellation must take place. Testing showed that participants preferred the revised wording which resulted in a significant improvement of their ability to identify the deadline to cancel.

The Board intends to propose the revised model rescission notices for both closed-end mortgages and HELOCs in connection with its proposed amendments to Regulation Z in July 2010. These model forms were developed, in large part, based on findings from the 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 understand this important right and to 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 Group C: 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 |
|--|--|
| | <ul style="list-style-type: none"> • 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. |
| <p>Q8a: Have you experienced any of the following financial hardships in the past 7 years: bankruptcy, foreclosure, repossession, or a tax lien?</p> <p>a) Yes b) No</p> <p>Q8b: How would you rate your credit?</p> <p>a) Excellent b) Good c) Fair d) Poor</p> | <p>At least three (but no more than five) recruits must answer:</p> <ul style="list-style-type: none"> • “a” to Q8a; <i>or</i> • “c” or “d” to Q8b. |
| <p>Q9a: [<i>Groups A and B only</i>] Do you currently have an outstanding balance on your HELOC?</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Q9b: [<i>Groups A and B only</i>] What is the current outstanding balance on your HELOC?</p> <p><input type="checkbox"/> \$70,000+ <input type="checkbox"/> \$30,000–\$70,000 <input type="checkbox"/> \$10,000–\$30,000 <input type="checkbox"/> Less than \$10,000</p> | <p>At least three (but no more than six) recruits should answer “Yes” to Q9a</p> |
| <p>Q10: What is your age?</p> <p>a) 18 to 35 b) 36 or above</p> | <p>At least 3 recruits should respond “a”</p> |

| Screening Criteria | Recruiting Quotas |
|--|--|
| <p>Q11: Which of the following categories best reflects your race or ethnicity? You can choose more than one category. <i>[Respondents who wish to choose more than one category should be counted as minorities, even if one race mentioned is White.]</i></p> <ul style="list-style-type: none"> a) White b) Black or African-American c) Hispanic or Latino d) Asian or Pacific Islander e) Native American or Alaska Native | <ul style="list-style-type: none"> • At least 4 recruits should respond “a” • At least 4 recruits should respond “b,” “c,” “d,” or “e” |
| <p>Q12: What is the highest level that you reached in school?</p> <ul style="list-style-type: none"> a) High school degree or less b) Some college work c) College graduate | <ul style="list-style-type: none"> • At least 2 recruits should respond “a” • At least 3 recruits should respond “b” • At least 3 recruits should respond “c” |
| <p>Q13: <i>Gender</i></p> | <p>At least 3 recruits of each gender</p> |

**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 |
|---|--|
| <i>Does participant qualify as "SP"?</i> | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • No more than 3 recruits should answer "a" |
| Q19: Was this the first home you ever purchased? a) Yes b) No | <ul style="list-style-type: none"> • At least 3 recruits should respond "a" |

| Screening Criteria | Recruiting Quotas |
|--|---|
| <p>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?</p> <p>a) Yes, adjustable b) No, not adjustable → Have you had an adjustable rate mortgage in the past five years? <i>If Yes, then count as “a”</i> c) Don’t know</p> | <ul style="list-style-type: none"> • No more than 2 recruits should respond “b” or “c” |
| <p>Q21: What is your age?</p> <p>a) 18 to 25 b) 26 to 35 c) 36 to 50 d) 51 or above</p> | <ul style="list-style-type: none"> • At least 2 recruits should respond “a” or “b” • At least 2 recruits should respond “c” or “d” |
| <p>Q22: Which of the following categories best reflects your race or ethnicity? You can choose more than one category. [<i>Respondents who wish to choose more than one category should be counted as minorities, even if one race mentioned is White.</i>]</p> <p>a) White b) Black or African-American c) Hispanic or Latino d) Asian e) Native American or Pacific Islander</p> | <ul style="list-style-type: none"> • At least 2 recruits should respond “a” • At least 4 recruit should respond “b,” “c,” “d,” or “e” |
| <p>Q23: What is the highest level that you reached in school?</p> <p>a) Some high school b) High school graduate c) At least some college work d) College graduate e) At least some graduate school</p> | <ul style="list-style-type: none"> • At least 2 recruits should respond “a” or “b” • At least 2 recruits should be “c” |
| <p>Q24: Gender</p> | <ul style="list-style-type: none"> • 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 HELOCs¹ | | | | | |
| 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 Loan² | | | | | |
| 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: Rescission Notices Used in Testing

RN-1

RN-2

RN-3

RN-4

RN-5

RN-6

RN-7

RN-8

Account Number: _____ Property Address: _____

Your Right to Cancel This Line of Credit

By opening this home equity line of credit, you are giving us the right to take your home if you cannot repay the money you owe, or otherwise default.

Your Right to Cancel

You have the right under federal law to cancel this line of credit without cost anytime before midnight of the third day after you receive this notice (excluding Sundays and federal holidays). We cannot make any funds available to you until after this deadline.

If you cancel this line of credit, we must refund to you any fees that you paid to open the line of credit. We will no longer have the right to take your home.

How to Cancel

If you wish to cancel this line of credit, you must sign and date: (1) this notice; or (2) another notice that indicates you are canceling your line of credit and includes your account number and property address. You must then mail this notification to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; fax it to 1-800-555-6789; bring it in person to Solar Bank, 500 Main Street, Calverton, MD; or e-mail it to us at helocancellation@solarbank.com.

Whether or not you choose to cancel this line of credit, keep a copy of this notice because it contains important information about your rights.

Deadline to Cancel

If you want to cancel your line of credit, you must send your cancellation notice by midnight of the third day after you receive this notice (excluding Sundays and federal holidays). If you bring the notice in person, you must deliver it by this deadline.

If you receive this notice before you have signed the final documents to open your line of credit, the deadline for your right to cancel may be later than the date given above. Call us at 1-800-555-1234 for the exact deadline.

BY SIGNING BELOW, I AM CANCELING THIS LINE OF CREDIT.

Signature

Date

Initial here _____ to acknowledge the receipt of TWO copies of this notice on _____ .
[initials] [date]

Initial here _____ to acknowledge the receipt of TWO copies of this notice on _____
[initials] [date]

Your Right to Cancel This Line of Credit

Account Number: _____ Property Address: _____

| | |
|---------------------------------|--|
| You Could Lose Your Home | By opening this line of credit, you are giving us the right to take your home if you cannot repay the money you owe, or otherwise default. |
| Your Right to Cancel | <p>You have the right under federal law to cancel this line of credit without cost anytime before midnight of the third day after you receive this notice (excluding Sundays and federal holidays). We cannot make any funds available to you until after this deadline.</p> <p>If you cancel this line of credit:</p> <ul style="list-style-type: none">• We must refund to you any fees you paid to open the line of credit; and• We will no longer have the right to take your home. |
| How to Cancel | <p>You can sign and date either this notice OR another notice that indicates you are canceling your line of credit and includes your account number and property address. You must then submit that notice to us by mail, fax, e-mail or in person.</p> <ul style="list-style-type: none">• Mail the notice to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; or• Fax the notice to 1-800-555-6789; or• E-mail us at helocancellation@solarbank.com; or• In person: bring the notice to Solar Bank, 500 Main Street, Calverton, MD. <p>Whether or not you choose to cancel this line of credit, keep a copy of this notice because it contains important information about your rights.</p> |
| Deadline to Cancel | <p>If you want to cancel your line of credit, you must send your cancellation notice before midnight of the third day after you receive this notice (excluding Sundays and federal holidays). If you bring the notice to us in person, you must deliver it by this deadline.</p> <p>If you receive this notice before you have signed the final documents to open your line of credit, the deadline for cancelling this line of credit may be later than the date given above. Call us at 1-800-555-1234 for the exact deadline.</p> |

BY SIGNING BELOW, I AM CANCELING THIS LINE OF CREDIT.

Signature

Date

Initial here _____ to acknowledge the receipt of TWO copies of this form on _____.
 [initials] [date]

Your Right to Cancel This Line of Credit

| | |
|---------------------------------|--|
| You Could Lose Your Home | By opening this line of credit, you are giving us the right to take your home if you cannot repay the money you owe. |
| Your Right to Cancel | You have the right under federal law to cancel this line of credit before the deadline stated below. To give you time to decide whether to cancel this line of credit, federal law prohibits us from making any funds available to you until after this deadline. Keep a copy of this form because it contains important information about your rights. |
| If You Cancel | If you cancel, we will: <ul style="list-style-type: none"> • Not charge you a cancellation fee; • Refund to you any fees you paid to open the line of credit; and • No longer have the right to take your home. |
| How to Cancel | To cancel, you can either sign and date the bottom portion of this form OR prepare another document that says you are cancelling this line of credit. Submit your cancellation notice to us (<u>choose one</u>): <ul style="list-style-type: none"> • By mail to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; or • By fax to 1-800-555-6789; or • By e-mail to helocancellation@solarbank.com; or • In person at Solar Bank, 500 Main Street, Calverton, MD. |
| Deadline to Cancel | If you want to cancel your line of credit, you must submit your cancellation notice by 11:59 p.m. on the third day (Monday through Saturday, except federal holidays) following <u>the latest of</u> : <ol style="list-style-type: none"> (1) the opening date of your account, which is January 19, 2010; or (2) the date you received the final Truth in Lending disclosures; or (3) the date you received this form. Please call us at 1-800-555-1234 for the exact deadline. |

[cut here → -----]

BY SIGNING BELOW, I AM CANCELLING THIS LINE OF CREDIT.

| | |
|-------------------------------------|----------------|
| Signature | Date |
| J. Smith | 12345 1234 |
| Print Name | Account Number |
| 1234 Main Street, Anytown, ST 12345 | |
| Property Address | |

Your Right to Cancel This Line of Credit

| | |
|---------------------------------|---|
| You Could Lose Your Home | By opening this line of credit, you are giving us the right to take your home if you cannot repay the money you owe. |
| Your Right to Cancel | You have the right under federal law to cancel this line of credit before the deadline stated below. To give you time to decide whether to cancel this line of credit, federal law prohibits us from making any funds available to you until after this deadline. Keep a copy of this form because it contains important information about your rights. |
| If You Cancel | If you cancel, we will: <ul style="list-style-type: none"> • Not charge you a cancellation fee; • Refund to you any fees you paid to open the line of credit; and • No longer have the right to take your home. |
| How to Cancel | To cancel, you can either sign and date the bottom portion of this form OR prepare another document that says you are cancelling this line of credit. Submit your cancellation notice to us (<u>choose one</u>): <ul style="list-style-type: none"> • By mail to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; or • By fax to 1-800-555-6789; or • By e-mail to helocancellation@solarbank.com; or • In person at Solar Bank, 500 Main Street, Calverton, MD. |
| Deadline to Cancel | If you want to cancel your line of credit, you must submit your cancellation notice by 11:59 p.m. on the third day (Monday through Saturday, except federal holidays) following the latest of : <ol style="list-style-type: none"> (1) the date you sign your loan documents (or the date the last borrower signs the loan documents, if you are not the only borrower); or (2) the date you received the final Truth in Lending disclosures; or (3) the date you received this notice. <p>If all borrowers sign the loan documents on <u>January 19, 2010</u>, and you receive your Truth in Lending disclosures and this notice by that date, you must submit your cancellation notice by 11:59 p.m. on January 22, 2010.</p> <p>Please call us at 1-800-555-1234 for the exact deadline.</p> |

Initial here _____ to acknowledge the receipt of TWO copies of this form on _____.
[initials] [date]

[cut here → -----]

BY SIGNING BELOW, I AM CANCELLING THIS LINE OF CREDIT.

| | |
|-------------------------------------|----------------|
| Signature | Date |
| J. Smith | 12345 1234 |
| Print Name | Account Number |
| 1234 Main Street, Anytown, ST 12345 | |
| Property Address | |

Your Right to Cancel This Line of Credit

| | |
|---------------------------------|--|
| You Could Lose Your Home | By opening this line of credit, you are giving us the right to take your home if you cannot repay the money you owe. |
| Your Right to Cancel | You have the right under federal law to cancel this line of credit before the deadline stated below. To give you time to decide whether to cancel this line of credit, federal law prohibits us from making any funds available to you until after this deadline. Keep a copy of this form because it contains important information about your rights. |
| If You Cancel | <p>If you cancel, we will:</p> <ul style="list-style-type: none"> • Not charge you a cancellation fee; • Refund to you any fees you paid to open the line of credit; and • No longer have the right to take your home. |
| How to Cancel | <p>To cancel, you can either sign and date the bottom portion of this form OR prepare another document that says you are cancelling this line of credit. Submit your cancellation notice to us (choose one):</p> <ul style="list-style-type: none"> • By mail to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; or • By fax to 1-800-555-6789; or • By e-mail to helocancellation@solarbank.com; or • In person at Solar Bank, 500 Main Street, Calverton, MD. |
| Deadline to Cancel | <p>If you want to cancel your line of credit, you must place your cancellation notice in the mail or submit it by fax, email or in person by the end of the third day (Monday through Saturday, except federal holidays) after the latest of:</p> <ol style="list-style-type: none"> (1) the day you sign your loan documents (or the day the last borrower signs the loan documents, if you are not the only borrower); or (2) the day you received the final Truth in Lending disclosures; or (3) the day you received this notice. <p>If your Truth in Lending disclosures or this notice is incorrect or incomplete, you may have up to 3 years to cancel this line of credit.</p> |

Initial here _____ to acknowledge the receipt of TWO copies of this form on _____.
[initials] [date]

[cut here → - - - - -]

BY SIGNING BELOW, I AM CANCELLING THIS LINE OF CREDIT.

| | |
|-------------------------------------|----------------|
| Signature | Date |
| J. Smith | 12345 1234 |
| Print Name | Account Number |
| 1234 Main Street, Anytown, ST 12345 | |
| Property Address | |

Your Right to Cancel This Line of Credit

| | |
|---------------------------------|---|
| You Could Lose Your Home | By opening this line of credit, you are giving us the right to take your home if you cannot repay the money you owe. |
| Your Right to Cancel | You have the right under federal law to cancel this line of credit before the deadline stated below. To give you time to decide whether to cancel this line of credit, federal law prohibits us from making any funds available to you until after this deadline. Keep a copy of this form because it contains important information about your rights. |
| If You Cancel | If you cancel, we will: <ul style="list-style-type: none"> • Not charge you a cancellation fee; • Refund to you any fees you paid to open the line of credit; and • No longer have the right to take your home. |
| How to Cancel | To cancel, you can either sign and date the bottom portion of this form OR prepare another document that says you are cancelling this line of credit. Submit your cancellation notice to us (choose one): <ul style="list-style-type: none"> • By mail to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; or • By fax to 1-800-555-6789; or • By e-mail to helocancellation@solarbank.com; or • In person at Solar Bank, 500 Main Street, Calverton, MD. |
| Deadline to Cancel | If you want to cancel this line of credit, you must do so on or before March 26, 2010. If your Truth in Lending disclosures or this notice is incorrect or incomplete, you may have up to 3 years to cancel this line of credit. |

Initial here _____ *to acknowledge the receipt of TWO copies of this form on* _____
[initials] *[date]*

[cut here → - - - - -]

BY SIGNING BELOW, I AM CANCELLING THIS LINE OF CREDIT.

| | |
|-------------------------------------|----------------|
| Signature | Date |
| J. Smith | 12345 1234 |
| Print Name | Account Number |
| 1234 Main Street, Anytown, ST 12345 | |
| Property Address | |

You are receiving this notice because the deadline to cancel your line of credit has changed from March 26, 2010 to March 29, 2010. Please refer to the "Deadline to Cancel" section below.

Your Right to Cancel This Line of Credit

| | |
|---------------------------------|--|
| You Could Lose Your Home | By opening this line of credit, you are giving us the right to take your home if you cannot repay the money you owe. |
| Your Right to Cancel | You have the right under federal law to cancel this line of credit before the deadline stated below. To give you time to decide whether to cancel this line of credit, federal law prohibits us from making any funds available to you until after this deadline. Keep a copy of this form because it contains important information about your rights. |
| If You Cancel | If you cancel, we will: <ul style="list-style-type: none"> • Not charge you a cancellation fee; • Refund to you any fees you paid to open the line of credit; and • No longer have the right to take your home. |
| How to Cancel | To cancel, you can either sign and date the bottom portion of this form OR prepare another document that says you are cancelling this line of credit. Submit your cancellation notice to us (<u>choose one</u>): <ul style="list-style-type: none"> • By mail to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; or • By fax to 1-800-555-6789; or • By e-mail to helocancellation@solarbank.com; or • In person at Solar Bank, 500 Main Street, Calverton, MD. |
| Deadline to Cancel | If you want to cancel this line of credit, you must do so on or before March 29, 2010. If your Truth in Lending disclosures or this notice is incorrect or incomplete, you may have up to 3 years to cancel this line of credit. |

Initial here _____ to acknowledge the receipt of TWO copies of this form on _____.

| [initials] - [date]

[cut here → -----]

BY SIGNING BELOW, I AM CANCELLING THIS LINE OF CREDIT.

Signature

Date

J. Smith

Print Name

12345 1234

Account Number

1234 Main Street, Anytown, ST 12345

Property Address

Your Right to Cancel This Loan

| | |
|---------------------------------|--|
| You Could Lose Your Home | You are giving us the right to take your home if you cannot repay the money you owe under this loan for an increased amount of credit. |
| Your Right to Cancel | You have the right under federal law to cancel this loan on or before the date stated below. Federal law prohibits us from making any funds available to you until after this date. |
| If You Cancel | <p>If you cancel, we will:</p> <ul style="list-style-type: none"> • Not charge you a cancellation fee; and • Refund to you any fees you paid to get this loan. <p>If you do cancel this new loan, all of the terms of your previous loan with us will still apply. You will still owe us your previous balance, and we will have the right to take your home if you cannot repay that money.</p> |
| How to Cancel | <p>To cancel, write the date on the bottom portion of this notice and submit it to us (<u>choose one</u>):</p> <ul style="list-style-type: none"> • By mail to Solar Bank, P.O. Box 890, Wilmington, DE, 19805; or • By fax to 1-800-555-6789; or • By e-mail to loancancellation@solarbank.com; or • In person at Solar Bank, 500 Main Street, Calverton, MD. |
| Deadline to Cancel | <p>If you want to cancel this loan, you must mail, fax, e-mail, or deliver the bottom portion of this notice on or before April 20, 2010.*</p> <p><small>*In certain circumstances, your right to cancel this loan may extend beyond this date.</small></p> |

Initial here _____ to acknowledge the receipt of this form on _____.
[initials] *[date]*

[cut here → -----]

I AM CANCELLING THIS LOAN.

Pat Consumer _____

Name

1234 Main Street, Anytown, ST 12345 _____

Property Address

Date

12345 1234 _____

Identification Number



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