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American Bankers Insurance Association
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Mr. Mitchell E. Hochberg
Ms. Jane Gao
Office of Regulations
Consumer Financial Protection Bureau
1500 Pennsylvania Avenue, NW
(Attn: 1801 L Street)
Washington, DC 20220

Re: Docket No. CFPB-1011-0043

Dear Mr. Hochberg and Ms. Gao:

The American Bankers Insurance Association (ABIA)[1] appreciates the opportunity to provide this comment on the qualitative testing methods the Bureau of Consumer Financial Protection (CFPB) will use in the design of model forms that will accompany the mortgage servicing rules CFPB is required to promulgate under the terms of sections 1418 (Reset of Hybrid Adjustable Rate Mortgages), 1420 (Periodic Mortgage Loan Statements), and 1463 (Force-Placed Insurance Disclosures) of the Dodd-Frank Act.

A. Creditor-Placed Insurance

Our comments are directed at the development of model forms related to disclosures required by section 1463 (Force-Placed Insurance Disclosures). In the balance of this letter, we refer to force-placed insurance as "creditor-placed" insurance. The term force-placed insurance is a dated term, which conveys the impression that a borrower has no control over the placement of the product. In fact, a borrower has control over whether the product is placed through the borrower's decision to maintain required hazard insurance on the property that secures a loan.

Creditor-placed insurance performs an important function in the housing finance system. Mortgage lenders, as well as Fannie Mae and Freddie Mac, require hazard insurance on properties used as collateral for housing loans. Creditor-placed insurance is a last resort mechanism to ensure that such protection is in place in those instances when a borrower allows such protection to lapse. Without this fall-back protection, lenders and investors would be reluctant to make, or invest in, mortgages and the flow of housing finance would suffer.

[1] ABIA represents banks that are actively engaged in the business of insurance, principally as producers, insurance companies and third-party administrators that provide insurance products and services to banks. ABIA is a subsidiary of the American Bankers Association.

B. Notice Required by Section 1463 of the Dodd-Frank Act

Section 1463 of the Dodd-Frank Act amends the Real Estate Settlement Procedures Act to require mortgage servicers to send a written notice to a borrower prior to imposing any charge on the borrower for creditor-placed insurance.[2] Further, section 1463 provides that such notice must contain the following information:

(1) a reminder of the borrower's obligation to maintain hazard insurance on the property securing the mortgage;

(2) a statement that the servicer does not have evidence of insurance coverage of such property;

(3) a clear and conspicuous statement of the procedures by which the borrower may demonstrate that the borrower already has insurance coverage; and

(4) a statement that the servicer may obtain such coverage at the borrower's expense if the borrower does not provide such demonstration of the borrower's existing coverage in a timely manner.

C. Recommendations for the Design and Testing of Model Disclosures

In the design and testing of the model disclosure for the creditor-placed insurance notice, CFPB is proposing to: (1) conduct one-on-one cognitive think aloud interviews with 36 respondents; and (2) iterative qualitative testing of disclosures with another 360 respondents, which would include observation of respondents' usage of the disclosures, their understanding of the content of the disclosures, and the choices they make.

ABIA respectfully recommends that CFPB augment this design and testing process through the additional steps outlined below. While these steps will add to the time and response burden of respondents, we believe they will enhance the quality and accuracy of the proposed forms.

Recommendation One: Establish Guiding Principles

Before engaging in the design or testing of any forms, we recommend that CFPB publish, for comment, a set of standards or principles that will guide its development of the model forms. For example, we believe any forms developed by CFPB should be understandable, accurate, unbiased, and succinct.

Recommendation Two: Engage in an Information Exchange with Industry

[2] 12 USC § 2605(l).

In addition to the think aloud interviews with sample respondents, we recommend that CFPB engage in one or more meetings with mortgage servicers and the companies that offer or administer creditor-placed insurance prior to designing and testing any model forms. We believe that such meetings would help CFPB better understand existing industry disclosure practices and permit the industry to share its insights into current consumer behavior.

Recommendation Three: Conduct Monadic Testing of Model Forms

Finally, in addition to the qualitative testing of 360 respondents, we recommend that CFPB test different model forms using a monadic test. Monadic testing is recognized as one of the best methods for testing new products, or in this case, a new model disclosure form. It simulates real life for a respondent because it focuses a respondent's attention upon a single form, as opposed to two or more alternative forms. A monadic test would provide CFPB with detailed and actionable diagnostic information about proposed model forms because the test can include both pre-stimulus and post-stimulus techniques in which respondents can be asked about their general perceptions and understanding of the information provided in the form. Moreover, monadic testing would provide CFPB with a much broader range of consumer responses. Monadic tests should include a minimum of 400 respondents per testing cell (i.e., respondents in each cell would react to a different model form). This would permit CFPB to evaluate the responses of not just hundreds of respondents, but thousands, depending upon the number of models tested. Monadic tests can be administered online and require only 15 minutes of each respondent's time. We believe that such tests would provide the CFPB with much more detailed and useable information than the smaller qualitative test currently envisioned.

D. <u>Conclusion</u>

ABIA appreciates the opportunity to provide the foregoing comments, and I would be pleased to respond to any questions you may have regarding our recommendations. I can be reached at 202-663-5172.

Sincerely,

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