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A SURVEY OF THE MORTGAGE BANKING INDUSTRY CONCERNING COSTS AND BENEFITS OF REGULATIONS

A SURVEY AND STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

MARCH 25, 1983

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LETTER OF TRANSMITTAL

MARCH 17, 1983.

HON. ROGER W. JEPSEN,
Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a survey and study, titled "A Survey of the Mortgage Banking Industry Concerning Costs and Benefits of Regulations." Specifically, this project is to help determine the cost of complying with the Truth in Lending Act and its implementing Regulation Z by the nondepository mortgage lending institutions subject to the Federal Trade Commission's jurisdiction.

At my request, the Federal Trade Commission engaged the survey research firm of Louis Harris and Associates to conduct the survey and study. In responding to my request, the Federal Trade Commission said it believes that the independence of the study adds to its value for the committee's use. This undertaking has resulted in the collection of extensive and candid data.

Views expressed in the survey do not necessarily represent those of the Federal Trade Commission or its members, nor the views of the Joint Economic Committee or its members.

Sincerely,

LEE H. HAMILTON,
Chairman, Subcommittee on Economic Goals and Intergovernmental Policy.

A SURVEY OF THE MORTGAGE BANKING INDUSTRY CONCERNING COSTS AND BENEFITS OF REGULATIONS

Conducted for the

FEDERAL TRADE COMMISSION

Contract No. LO-913

by

John M. Boyle, Ph.D.
Project Director

September 1982

LOUIS HARRIS AND ASSOCIATES, INC.

EXECUTIVE SUMMARY

On June 1, 1982, the Federal Trade Commission engaged Louis Harris and Associates to conduct a survey of the mortgage banking industry concerning the costs and benefits of Regulation Z (Truth-in-Lending) and the costs of conversion to revised Regulation Z. From June 28 through July 13, 1982, Louis Harris and Associates collected detailed information concerning expenses incurred as a direct result of Regulation Z from a national sample of 201 mortgage banking companies using mail-assisted telephone interviewing. The sample was drawn from the membership of the Mortgage Bankers Association of America and represented 40% of its mortgage banking companies that made residential mortgage loans in 1980 and 1981.

The cost of Regulation Z varies with the size of the mortgage banking company. In 1980, average expenses for Regulation Z were $74,031 for companies whose loan origination volume was greater than $200 million; $41,903 for firms with a loan origination volume between $50 and $200 million; and $13,964 for mortgage banking companies with less than $50 million in loan origination. When the expenses for Regulation Z are assessed relative to loan origination volume, differences in regulatory costs between large companies and small companies persist. The average expenses as a result of Regulation Z represent $0.23 for every thousand dollars in mortgage loans for the largest firms (over $200 million); $0.36 per thousand dollars for the midsize firms ($50 to $200 million); and $0.67 per thousand dollars in mortgage loans for the smaller firms (less than $50 million).

The total cost of Regulation Z to the mortgage banking companies interviewed was $5,804,582 in 1980. If this sample estimate were projected to the total population of mortgage banking companies, the projected cost of Regulation Z to the mortgage banking industry in 1980 would be $11,869,830.

The total projected expenses of the mortgage banking industry for Regulation Z rose from $11,869,830 in 1980 to $13,228,274 in 1981. This increase appears to be wholly attributable to the expenses involved in converting to revised Regulation Z. For mortgage banking companies that had not begun conversion to the new regulation, regulatory expenses per loan application remained relatively stable between 1980 ($13.91) and 1981 ($13.10). However, those companies who began the conversion process in 1981 experienced a 45% increase in the cost of Regulation Z per mortgage loan application between 1980 ($13.61) and 1981 ($19.72).

By July 1982, at least one-third (33%) of mortgage banking companies had begun conversion to revised Regulation Z. Approximately 26% of all mortgage loan transactions were being conducted under revised Regulation Z. The average cost of conversion varied from $12,031 for small firms (less than $50 million) to $31,242 for midsize firms ($50 to $200 million) to $34,781 for large firms (over $200 million). The total cost of conversion to revised Regulation Z for the mortgage banking industry is estimated at $8,783,598.

Only 8% of those who have converted to revised Regulation Z report that any expenses incurred under original Regulation Z have been reduced or eliminated under revised Regulation Z. By contrast, 39% of firms that have converted to revised Regulation Z report that they have incurred new types of expenses under revised Regulation Z that they did not have under original

Regulation Z. Although the preliminary assessment of the new regulation is fairly negative, it should be noted that an examination of the types of new expenses incurred under revised Regulation Z strongly suggests that these may be one-time conversion costs rather than ongoing regulatory costs. Moreover, most mortgage banking companies that have converted to revised Regulation Z have done so relatively recently. Therefore, the benefits of the new regulation may become more evident as time goes on. It is important to note, however, that the estimated costs of conversion to the mortgage banking industry are considerable ($8.8 million) relative to the annual estimated costs of the original regulation ($11.9 million). Thus, the annual savings in regulatory costs as a result of the revised regulation must be relatively large in order to amortize the costs of conversion over a reasonable time period.

The survey also probed mortgage bankers' attitudes toward Regulation Z as well as their cost experience with both the original and revised regulations. Although the Joint Economic Committee did not request an attitude survey as part of this study, the survey provided an opportunity to gauge mortgage bankers' reactions to various aspects and provisions of Regulation Z. These attitudes are described in Chapter III.

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I. BACKGROUND

Purpose of the Study

The Joint Economic Committee of the Congress of the United States is currently reviewing the extent to which government regulations impose excessive and unintended regulatory burdens on mortgage lending institutions. In order to conduct this review, the Chairman of the Joint Economic Committee requested that several federal agencies responsible for the regulation of mortgage lending transactions report to the Joint Economic Committee on the costs and benefits of those regulations to the mortgage lending institutions.

The Board of Governors of the Federal Reserve System was already conducting a study of the costs to depository institutions of three consumer protection regulations that it is responsible for writing. These are Regulation B (Equal Credit Opportunity Act), Regulation E (Electronic Fund Transfer Act), and Regulation Z (Truth-in-Lending Act). Data for the Federal Reserve Study were collected in 1981 for the year 1980.

In March 1981, the Chairman of the Joint Economic Committee requested that the Federal Trade Commission undertake a similar study of the impact of FTC regulations on mortgage lending institutions under the FTC's jurisdiction. The Federal Trade Commission is responsible for the enforcement of Regulation Z (Truth-in-Lending) among nondepository mortgage banking companies. The FTC patterned its study design and research instrument to measure the costs and benefits of Regulation Z on the mortgage banking industry after the survey developed by the Federal Reserve Board Staff.

In addition to the costs and benefits of Regulation Z, the FTC study investigated the costs and benefits of the transition to revised Regulation Z. The revised regulation was promulgated in April 1981 and becomes mandatory on October 1, 1982. As a result, the FTC survey collected information on regulatory costs in 1980 for comparison to the Federal Reserve study and estimated regulatory costs in 1981 in order to investigate the expenses of conversion to the new regulation.

On June 1, 1982, the Federal Trade Commission engaged Louis Harris and Associates to conduct a survey of the mortgage banking industry on the costs and benefits of Regulation Z, as well as the costs of conversion to revised Regulation Z. A national survey was conducted among a representative sample of the universe of mortgage banking companies that were members of the Mortgage Bankers Association of America. The survey was conducted from June 28 through July 13, 1982. Full interviews were completed with 201 mortgage banking companies that represented almost 40% of all mortgage banking firms originating consumer mortgage loans in the study years.

The analysis and reporting of data collected by this survey, as presented in this report, were conducted by Louis Harris and Associates. The views and interpretations expressed in this report are solely those of Louis Harris and Associates and do not necessarily represent the views of the Federal Trade Commission or any other group.

The Truth-in-Lending Act

The United States Congress passed the Consumer Credit Protection Act in 1968 (P.L. 90-321) as a landmark consumer protection law. Title 1 of the Consumer Credit Protection Act is known as the Truth-in-Lending Act. According to the report of the Senate Committee on Banking and Currency:

> The basic purpose of the Truth-in-Lending bill is to provide a full disclosure of credit charges to the American consumer. The bill does not in any way regulate the credit industry nor does it prescribe ceilings on credit charges. Instead it requires that full disclosure of credit charges be made so that the consumer can decide for himself whether the charge is reasonable.[1]

The Truth-in-Lending Act (TIL) required all creditors to disclose in a uniform fashion certain information about the cost of credit and the terms of the credit transaction. At the heart of the information required for all credit transactions under the Truth-in-Lending Act were the disclosure of the finance charge, defined as the sum of the consumer's costs in obtaining credit, and the annual percentage rate (APR), which is the actual cost of credit, expressed as a percentage that is based on the finance charge and the amount financed.

The power to write the regulations and implement TIL was delegated to the Federal Reserve Board. The Board's regulation, specifying the means of implementation, is Regulation Z (CFR 12, Section 226, 1969). In addition to making plain the requirements of compliance, the Act divided administrative enforcement responsibilities among appropriate federal agencies. Enforcing

[1]United States Senate, Committee on Banking and Currency, "Truth-in-Lending 1967: Report to Accompany S.5," (Washington, GPO, 1967), p.1.

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compliance of depository institutions, depending upon their charter, was charged to the Comptroller of the Currency, the Federal Reserve Board, the Federal Deposit Insurance Corporation, or the Federal Home Loan Bank Board. The Federal Trade Commission was made responsible for administrative enforcement of TIL among all nondepository creditors and lessors.

The intent of the Truth-in-Lending Act was to guarantee the consumer access to comparable information on the cost of credit from different lenders. This objective was operationalized by standardizing the disclosure of credit information among lenders, placing strict constraints on the content of credit advertising, and providing for the civil liability of the creditor.

Although the goal of the Truth-in-Lending Act was relatively clear and quite reasonable, the implementation of the concept was much more complex and difficult. As the staff of the Federal Reserve Board later noted in a regulatory analysis of Regulation Z, the problem lay in the very notion of "full disclosure":

> Rather than concentrating on a few fundamental disclosures, Truth-in-Lending and Regulation Z have always required a much more extensive list. Apparently drafted under the assumption that more disclosure is necessarily better than less, TIL and Regulation Z have required disclosures of all information that conceivably might be useful to someone sometime.[2]

By early 1980, more than 1,500 interpretations of the regulation had been published by the Federal Reserve Board and its staff. More than 13,000 Truth-in-Lending lawsuits had been filed in Federal Court by 1980. The steady

[2] Board of Governors of the Federal Reserve System, "Regulatory Analysis of Revised Regulation Z," 46 FR 20848.

stream of interpretations and court cases, interacting with changes in state law, produced a situation in which nine years after the effective date of the act, federal bank regulatory agencies reported that more than 80% of banks were not wholly in compliance.[3]

Consequently, a series of bills were introduced in Congress between 1977 and 1980 to substantially overhaul the Truth-in-Lending Law. In 1980, the Truth-in-Lending Simplification and Reform Act was adopted by Congress as part of the Depository Institutions Deregulation and Monetary Control Act (P.L. 96-221). The Federal Reserve Board promulgated a final rule for revised Regulation Z in April 1981. The revised regulation became effective on April 1, 1981 and mandatory on October 1, 1982.

The Mortgage Banking Industry

The Truth-in-Lending Act and Regulation Z cover the full range of consumer credit transactions, including personal loans, installment purchases, and credit card finance charges. Mortgage loans, however, may represent the most important area of consumer credit transactions that is covered by the law. For the consumer, the mortgage loan represents the largest credit transaction he or she will ever undertake, with average mortgage loans of $54,384 (Table 4). For the lending institutions, mortgage loan transactions represent a sizable portion of all consumer credit transactions. In 1979, for instance, more than $200 billion were extended by mortgage lenders to consumers for the purpose of purchasing a residence.

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[3] Board of Governors of the Federal Reserve System, "Regulatory Analysis of Revised Regulation Z," 46 FR 20848.

Mortgage loans are made to consumers by a variety of lending institutions. Savings and loan institutions were the leading source of mortgage loan regulation in 1980 -- providing 45% of the total residential loan volume (Table 1). Mortgage banking companies ranked second as a source of residential mortgage loans in 1980. The $33 billion in residential mortgage loans made by mortgage banking companies represent 24% of total residential loan origination in 1980. Commercial banks, which ranked second in total mortgage loan origination, are the third major source of residential mortgage loans (20%). Other important sources of residential mortgage loans include federal credit agencies (5%), mutual savings institutions (4%), and life insurance companies (2%).

The responsibility for the administration and enforcement of Regulation Z among these mortgage organizations varies according to the type of lending institution. National banks are the responsibility of the Comptroller of the Currency. State member banks are the responsibility of the Federal Reserve Board. Banks that are not members of the Federal Reserve System are the responsibility of the Federal Deposit Insurance Corporation, if insured by that corporation. Savings and loan institutions are the responsibility of the Federal Home Loan Bank Board, if the savings institution is a member of the FHLB system and insured by the Federal Savings and Loan Insurance Corporation. Most mortgage banking companies are the responsibility of the Federal Trade Commission for purposes of compliance with Regulation Z.

Mortgage banking companies represent a special group of mortgage lenders. As noted earlier, mortgage banking companies were the second leading source of residential mortgage loans in 1980 -- providing nearly a quarter

(23%) of all residential loans in 1980. Moreover, these mortgage lending companies were responsible for 83% of all FHA mortgage loans and 80% of all VA mortgage loans originated in 1980.[4] By contrast, mortgage loan companies originated only 14% of nonresidential mortgage loans and only 9% of conventional residential mortgage loans in 1980. (Table 1).

Mortgage banking companies tend to originate loans for the purpose of reselling them on the secondary market, rather than for the purpose of servicing the loans themselves. Approximately 75% of the residential mortgage loans made by mortgage banking companies in 1980 were purchased by the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corporation. The loan servicing volume for mortgage banking companies is only 20% of the total mortgage debt outstanding.[5]

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[4] Mortgage Bankers of America Association, "Loans Closed and Servicing Volume for the Mortgage Banking Industry 1980," Trends Report No.29, July 1981.
[5] Ibid.

TABLE 1

MORTGAGE LOAN ORIGINATION VOLUME IN 1980
BY TYPE OF LENDING INSTITUTION

$ IN MILLIONS	TOTAL	MORTGAGE BANKERS	SAV-INGS AND LOAN	COMMERCIAL BANK	MUTUALS	LIFE INSURANCE	FEDERAL CREDIT AGENCIES
TOTAL RESIDENTIAL	141,999	33,332	64,195	28,046	5,978	3,138	7,310
RESIDENTIAL (1-4)	130,251	30,864	61,095	26,768	5,435	1,71	4,378
FHA	14,308	11,823	1,265	899	136	185	-
VA	12,260	9,847	1,511	702	89	111	-
CONVENTIONAL	103,683	9,194	58,319	25,167	5,210	1,415	4,378
MULTI-UNIT	11,748	2,468	3,100	1,278	543	1,247	2,932
FHA	3,536	1,278	108		96	1	1,981
CONVENTIONAL	8,212	1,190	2,992	1,207	446	1,426	951
NONRESIDENTIAL	34,248	4,799	4,183	12,470	1,013	11,059	724
TOTAL	176,247	38,131	68,378	40,516	6,991	14,197	8,034
PERCENT RESIDENTIAL	100%	23%	45%	20%	4%	2%	5%
PERCENT TOTAL	100%	22%	39%	23%	4%	8%	5%

SOURCE: MORTGAGE BANKERS OF AMERICAN ASSOCIATION, "LOANS CLOSED AND SERVICING VOLUME FOR THE MORTGAGE BANKING INDUSTRY 1980," TRENDS REPORT NO. 29, JULY 1981.

The mortgage banking companies differ from depository institutions in the source of their funds, the type of mortgage loans made, and their primary interest in the resale rather than servicing of the loan. However, mortgage banking companies also vary significantly among themselves in their composition, size, and resources. According to the 1980 membership profile of the Mortgage Bankers Association, 48 mortgage banking companies made more than $200 million in mortgage loan origination; 155 companies originated $50 to $200 million in mortgage loans; 298 companies originated $10 to $50 million; and 278 companies originated $10 million or less in mortgage loans in 1980. Thus, some mortgage banking companies are very large institutions while many could be described as small businesses.

The mortgage banking companies play a unique role in servicing a national credit market.

Sample Construction

The sample for the survey of the mortgage banking industry was constructed from the current membership of the Mortgage Bankers Association of America. The more than 700 mortgage banking companies that belong to the Mortgage Bankers Association do not exhaust the full range of nondepository companies that make consumer mortgage loans, but they represent the bulk of consumer mortgage loans originated by such firms. Hence, the current membership of the MBA provides a reasonable approximation of the universe of companies that regularly provide mortgage loans.

Within the Mortgage Bankers Association, mortgage loan volume varies enormously between companies. In 1980, those MBA members whose loan origination volume was $200 million or more represented only 6% of the MBA membership, but accounted for 42% of the total loan origination volume of the MBA members. Similarly, mortgage banking companies with loan origination volumes of between $50 million and $200 million represented 20% of the MBA membership, but accounted for 37% of the total loan origination volume of member companies in 1980. The remaining 74% of the MBA membership, whose loan origination volume is less than $50 million annually, accounted for the remaining 21% of total loan origination volume of MBA member companies in 1980.

When the distribution of an important characteristic in a study population is extremely skewed, a relatively small proportion of the total population will account for a disproportionate amount of the total variance observed in the population. Minimizing sampling variance in the population segment that makes the greatest contribution to total variance is the most efficient method of reducing total sampling variance. Stratification of the population on the basis of the skewed characteristic and disproportionate sampling among strata permits substantial improvement in total sample estimates.

Previous regulatory impact analyses conducted by Louis Harris and Associates found that the total regulatory cost (but not necessarily proportionate cost) increased with company size.[6] Therefore, stratification based on company size could significantly improve the precision of estimates

[6] John M. Boyle, "A Study of the Regulatory Impact of the Medical Device Amendments: A Survey of Medical Device Manufacturers," Louis Harris and Associates, July 1982.

of the total cost of regulation to the industry. If large firms (defined by loan origination volume) are responsible for a disproportionate share of the total cost of regulation to the industry, then the sample estimates for the total population will be substantially improved by eliminating (or reducing) sample variability within this stratum.

For these reasons, the sample design partitioned the population of MBA members into three strata:

-- Stratum I: Loan origination volume of $200 million or more;

-- Stratum II: Loan origination volume of $50 million to $200 million;

-- Stratum III: Loan origination volume of less than $50 million.

Using these loan volume parameters, the Mortgage Bankers Association conducted a computerized sorting of their mortgage banking members into the three strata.[7] On the basis of the 1981 data, the population of 726 mortgage banking firms was distributed as follows:

-- Stratum I: 36;

-- Stratum II: 119;

-- Stratum III: 571.

The optimum sample allocation for precision of sampling estimates, with this population distribution, was a census of the mortgage banking firms in Strata I and II, and a random sample of Stratum III. In order to complete 200 interviews as specified by the FTC, assuming a 50% response rate, Louis Harris and Associates drew an initial sample of 400 mortgage banking firms from

[7]Neither the actual loan origination volume nor any other business information for any individual company was revealed by the Mortgage Bankers Association to the Harris organization.

sample lists provided by the Mortgage Bankers Association. All companies in Strata I and II were drawn into the initial sample, as well as 243 companies from Stratum III.

The sample of Stratum III companies was drawn using systematic selection procedures that allowed each Stratum III company an equal probability of selection. The sampling was done by systematically selecting every "ith" company in the stratum. In this case, the "ith" refers to a constant interval, determined by the following formula:

$$i = N/n$$

where N is the number of companies in the stratum and n is the desired number of companies in the sample. A computer-generated random number was used to select the initial number between 1 and i that established a random start. The constant interval (i) was then sequentially accumulated until all potential sample respondents had been designated. This procedure can be demonstrated to be statistically identical to the method by which individual elements are selected independently and at random, without replacement, from the population.

Although it was hoped that the initial sample of 400 would yield 200 completed interviews, the limited interviewing period and the possibility that companies might not be able to estimate regulatory costs led to the preparation of a replicate sample of 247 Stratum III companies. The replicate sample, as the name suggests, was constructed in exactly the same fashion as the initial sample of 243 Stratum III companies.

Survey Procedures

The research instrument for the survey of mortgage bankers was derived from the questionnaire used by the Federal Reserve Board's ongoing "Survey of Compliance Costs and Benefits of Consumer Protection Regulations." By express agreement between the Chairman of the Joint Economic Committee and the Chairman of the Federal Trade Commission, the FTC's survey of mortgage bankers was restricted to Regulation Z. The FRB survey included questions related to Regulations B and E, as well as Regulation Z, since these fall within the responsibility of the Federal Reserve Board. However, the Joint Economic Committee's request was limited to certain regulations affecting mortgage lending, so Regulations B and E were not included in the FTC study.

The survey instrument covered four major areas: the first part of the questionnaire collected information about mortgage loan activity -- such as number of applications, number of loans, and volume of loans -- for 1980 and 1981. The second section collected information about the regulatory costs of Regulation Z in 1980 and 1981, as well as the cost of conversion to revised Regulation Z, if applicable. The third section collected information on attitudes toward Regulation Z. The final section was a supplementary worksheet on which respondents could record a detailed breakdown of the costs of Regulation Z.

The data collection objectives of the survey of mortgage bankers included many items that might have required respondents to retrieve records, consult with other staff members, and even derive estimates of costs and personnel allocations. Consequently, information of this type could not be collected immediately or effectively by either simple telephone surveys or in-person surveys. Therefore, the survey of mortgage bankers employed a data collection strategy that had been successfully employed on surveys with similar research problems.

The study was designed as a mail-assisted telephone survey. One week after the cover letter and questionnaire had been mailed to the companies in the sample, executive interviewers from Louis Harris and Associates contacted the addressees by telephone in order to collect the information recorded in the questionnaire. If they so desired, respondents were permitted to complete the questionnaire and leave it with a secretary to read to the interviewer. This was rarely done, however, as most respondents wanted to clarify their answers at the time of the interview.

The survey questionnaire was designed and formatted as a mail questionnaire. The questionnaire was mailed out to the sample, along with an executive letter fom Louis Harris explaining the purposes of the survey. The letter and questionnaire were addressed to the company official listed by the Mortgage Bankers Association on the membership roster. In most cases, this official was the president or the chief executive officer. The chief executive could then review the questionnaire and delegate the task of completing it to the most knowledgeable official in the company (frequently the comptroller). The designated official would be identified when the interviewer called to arrange an appointment for the telephone interview.

Although the advance mailing of the questionnaires was considered essential to the collection of accurate and complete information on the costs of regulation, the study was not intended to be a mail survey. Mail surveys suffer from low completion rates and indefinite response rates. In this case, the limited time available made a mail survey inappropriate.

The primary goal of the survey was to collect estimates for the costs of Regulation Z in the study years 1980 and 1981. The year 1980 was selected as a study year in order to permit comparability with the Federal Reserve Board survey. The year 1981 was selected to capture the transition costs to revised Regulation Z. However, the pretest of the survey revealed that a substantial portion of the current membership of the Mortgage Bankers Association had not made any consumer mortgage loans in 1980 or 1981. Since these firms were not engaged in regulated transactions during the study period of the survey, they were considered ineligible for inclusion in the sample. Interviewers established the eligibility of the company in the initial telephone contact, before conducting the interview. The incidence of ineligibility (the total number of ineligibles divided by total number fielded) varied from 8% in Stratum I, to 16% in Stratum II, to 29% in Stratum III.

When sampled firms were unable or unwilling to provide estimates of costs incurred during those years as a result of Regulation Z, interviewers attempted to complete a short form of the questionnaire with the respondent. The short form instrument was limited to general questions about the companies' loan volume in 1980 and 1981 and attitudes toward Regulation Z (the first and third sections of the questionnaire). The value of the short form was that it would permit analysis of potential nonresponse bias among companies who could not or would not estimate the costs to them of Regulation Z.

In addition to the major objective of estimating the total costs of Regulation Z, the survey sought to gather estimates of the breakdown of those costs by seven major expenditure categories. Each expenditure category was further broken down into more specific subdivisions. These most detailed requests for information were presented to the respondents as "worksheets," which they were encouraged to complete and report to the interviewer.

The questionnaires were mailed out to the initial sample on June 21, 1982. Included in the mailing were a letter from the executive vice president of the Mortgage Bankers Association endorsing the objectives of the study, as well as the executive letter from Louis Harris. One week later, on June 28, interviewers began contacting the sampled companies. During the first week of interviewing, an extraordinarily high rate of ineligibility was encountered, particularly among the Stratum III companies. Consequently, the replicate sample of 247 additional Stratum III firms was fielded. The interviewing period ended on July 16 -- on schedule -- three weeks after the first interview and four weeks after the initial mailing of the survey instruments.

Participation Rates

The data collection efforts were successful (Table 2). A total of 201 full interviews (long form) were completed in the three-week field period. Complete interviews were obtained with:

-- 67% of all eligible[8] companies with loan origination volume of $200 million or more;

-- 60% of all eligible companies with loan origination volume between $50 million and $200 million; and

-- 32% of all eligible companies with loan origination volume of less than $50 million.

[8] Eligible companies are those that made consumer mortgage loans in either 1980 or 1981.

TABLE 2

SAMPLE DISPOSITION

	TOTAL	LOAN ORIGINATION STRATUM I ($200 MILLION OR MORE)	STRATUM II ($50-200 MILLION)	STRATUM III (LESS THAN $50 MILLION)
TOTAL NUMBER OF COMPANIES	726	36	119	571
TOTAL NUMBER FIELDED	645	36	119	490
NOT ELIGIBLE	190	3	19	168
ESTIMATED NUMBER OF ELIGIBLE COMPANIES	508	33	100	375
TOTAL ELIGIBLE COMPANIES IN SAMPLE	455	33	100	322
COMPLETE INTERVIEWS (LONG FORMS)	201	22	60	119
SHORT FORM INTERVIEWS	43	1	9	33
REFUSALS	59	-	9	50
NOT AVAILABLE DURING FIELD PERIOD (E.G., ILLNESS, VACATION)	20	3	3	14
FIELD PERIOD ENDED BEFORE INTERVIEW COULD BE ARRANGED	132	7	19	106

In addition, short form interviews were obtained from another 43 mortgage banking companies that were unwilling or unable to provide estimates of regulatory costs.

Because of the limited field period of this study (three weeks) and the amount of time required for most companies to prepare their replies, a substantial number of cooperative firms could not be interviewed. In some cases, the key official in the company was not available during the limited field period (illness, vacation). In other cases, the required information could not be compiled by the company within the field period.[9] Under these circumstances, it is more appropriate to calculate the response rate for this survey by participation rate (completes ÷ (completes + short forms + refusals)) rather than by completion rates (completes ÷ all eligibles). The participation rates for the survey of mortgage bankers were:

-- 96% in Stratum I;

-- 77% in Stratum II; and

-- 59% in Stratum III.

These rates compare favorably with other business surveys that had significantly longer field periods and less onerous data collection needs.

The survey of mortgage bankers yielded a far more complete and comprehensive data set than had been anticipated. At the beginning of the study it was not clear whether companies could (or would) supply information

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[9] A total of 132 companies (29% of the eligible companies contacted) could not be interviewed before the end of the field period. It seems inappropriate to consider these to be passive refusals. Most firms insisted on sufficient time to generate accurate estimates of regulatory costs, because they did not want to respond "off the top of their heads." Half of the 132 companies that were not interviewed (67) were drawn from the replicate sample and had only one week to complete their estimates.

about the total expenses incurred from Regulation Z for both of the years 1980 and 1981. Moreover, it was assumed that the percentage of companies that would be able and willing to provide a detailed breakdown of expenses by labor category and subcategory would be minimal.

Contrary to expectation, mortgage banking firms provided a wealth of detail about their expenses. Among the 201 completed interviews:

-- 97% provided estimates of total expenses for Regulation Z in 1981;

-- 76% provided estimates of 1981 expenses by individual cost category;

-- 92% provided estimates of total expenses for Regulation Z in 1980;

-- 71% provided estimates of 1980 expenses by individual cost category;

-- 30% provided more detailed expense breakdowns on the supplementary worksheets.

Data Editing

Following the interviews, the interviewing staff reviewed the surveys for completeness, legibility, and comprehensibility. The questionnaires were then transferred to the Harris coding staff for a final edit before being keypunched. Particular attention was given to the many numerical responses -- e.g., number of loans, number of hours, costs -- in the questionnaire.

The codes for the open-ended questions had been developed by the Harris coding and project staff on the basis of the preliminary findings of the Federal Reserve Board's parallel survey and were approved by the FTC staff. All subsequent coding was conducted solely by the Harris staff.

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The edited and coded questionnaires were then keypunched. In order to eliminate keypunching errors, all card images were 100% key verified. Once this was done, the card format data set was transferred onto magnetic tape. The data processing staff then machine edited and hand cleaned the data set.

The Harris edit program looked for the following kinds of errors: columns that contained illegal blanks; columns that contained multiple punches where only single punches were permitted; columns that contained punches that were out of range; and recorded responses that did not conform to the skip instructions in the questionnaire.

The program listed all such errors by case number, question, and type. The senior coding staff then inspected the original questionnaire and corrected the data cards. Complete records of all such procedures were kept.

In addition to conducting range checks and other standard data editing procedures, the Harris staff performed an internal consistency audit on the reports of regulatory costs. A program was created to compare the sums of the expenses reported by major expenditure category with what was reported in the total expenses record. If the difference was greater than rounding error (i.e., ± $500), the case was set temporarily to error and was listed. Coding clerks then compared the data record of the error case with the original questionnaire.

When an inconsistency was identified within a questionnaire -- rather than between the questionnaire and the data tape -- the inconsistency was circled on the questionnaire. These questionnaires were returned to the telephone interviewing staff, who verified the interview record with the respondents. In most cases, the source of the inconsistency was identified and corrected.

Even after verification, in a few cases, the amounts reported by expenditure category for a given year did not equal the total expenses for the year. In most of those instances the sum of the categories was greater than the total amount reported. This suggests that these respondents had some difficulty in partitioning total costs into mutually exclusive categories. Therefore, the more reliable total cost estimates were used throughout this report.

Confidentiality

In conducting this survey of the mortgage banking industry, the firm of Louis Harris and Associates instituted a number of procedures to insure the anonymity of respondents and the confidentiality of the respondents' answers. The universe of mortgage banking companies was provided by the Mortgage Bankers Association of America; but the sampling was conducted by the Harris organization. The identity of the companies in the sample drawn by the Harris sampling department was never revealed to the FTC, the MBA, or any other organization.

The following controls and procedures were taken to insure confidentiality for the respondents interviewed in the survey, and for their respective companies.

-- Immediately following the completion of the interview, the questionnaire was edited for completeness and legibility and assigned a unique identification number on both the questionnaire and the cover sheet; only the cover sheet contained the respondent's name, address, company, and telephone number;

-- The coding supervisor verified the accuracy and legibility of the ID number on both the questionnaire and the cover sheet, and then physically separated the cover sheet, with its identifying information, from the body of the questionnaire;

-- Following the removal of the cover sheet from the body of the questionnaire, the questionnaire was identified only by ID numbers;

-- All subsequent data reduction and data processing tasks were conducted using only the ID number. Identifying information from the cover sheet was not included in the computer-readable data base nor attached to the hardcopy of the interview;

-- Once the data set had been converted to magnetic tape and thoroughly cleaned of all anomalies -- which in some instances required that respondents be recontacted to verify information -- all cover sheets were destroyed. Consequently, no written record exists linking the names of survey respondents to questionnaires.

Thus, the privacy of the individuals and companies participating in this survey was fully protected from disclosure to the sponsoring agency, as well as from any subsequent attempts by outside parties to obtain their identities.

Sample Weighting

Although stratification of the mortgage banking companies by loan origination volume yields more homogeneous sampling distributions and, consequently, more precise estimates of population characteristics, it also alters the overall probability of selecting any specific firm. Recall that the probability of selection of a firm in Stratum I or Stratum II equalled unity. However, the prior probability of selecting a firm from Stratum III for inclusion in the sample was 86%. Substantial differences are found in the post probabilities of sample representation. Therefore, because the total population estimates are derived from a stratified sample design with unequal sampling fractions, it is necessary to weight sample cases as a function of the strata from which they are drawn.

A simple scheme is often used for weighting cases by the proportion of the universe of registered manufacturing establishments that the stratum represents:

$$\frac{N(\text{STRATUM})}{N(\text{TOTAL})}$$

However, because the rate of establishment ineligibility varies from stratum to stratum, further calculations are required. To correct for the rate of ineligibility, the total number of ineligibles within each stratum is subtracted from the total size of the stratum. (The total number of ineligibles is calculated from our sample data as follows: The rate of ineligibility in each stratum is found by dividing the number of firms we contacted that did not make any consumer mortgage loans in either 1980 or 1981 by the total number of firms contacted. This rate is then multiplied by the total number of companies in the stratum to estimate the total number of ineligibles in the stratum.) The resultant quotient is then subtracted from total stratum size. These operations yield a relatively pure estimate of the number of eligible firms in each stratum.

The specific case weights presented in Table 3, then, have been corrected for the differential rate of ineligibility. The case weights represent the expected sample distribution with proportionate sampling divided by the number of interviews obtained using disproportionate sampling. These case weights were used in calculating all of the population proportion estimates in this report, except for the estimates for the individual strata.

Since the probabilities for sample selection are equal within each stratum, there is no need to weight those strata estimates.

This weighting scheme was not used, however, to generate the aggregate estimates of total industry costs. For the aggregate estimates, the sample estimates were derived from each stratum sample and projected onto the population of that stratum. Thus, the sum of the aggregate estimates of all strata represents the best estimate of the total population value. Note that this procedure is identical in form and function to generating stratum weights as a function of the number of total eligible firms in population and strata and applying those weights to data elements.

TABLE 3

SAMPLE WEIGHTING

	TOTAL	STRATUM I	STRATUM II	STRATUM III
TOTAL NUMBER OF COMPANIES	726	36	119	571
ESTIMATED NUMBER OF ELIGIBLE COMPANIES	508	33	100	375
INCIDENCE OF COMPANIES BY STRATA IN TOTAL POPULATION OF ELIGIBLE COMPANIES	100%	6%	20%	74%
(E) EXPECTED SAMPLE DISTRIBUTION WITH PROPORTIONATE SAMPLING (N=201)	201	13	40	148
(O) COMPLETED INTERVIEWS WITH DISPROPORTIONATE SAMPLING (N=201)	201	22	60	119
CASE WEIGHT (E O) TO ACHIEVE PROPORTIONATE SAMPLE WEIGHTING		.59	.66	1.24

II. THE COST OF REGULATION Z: 1980 AND 1981

Introduction

The costs of Regulation Z to the mortgage banking industry normally include both initial investments in startup costs and continuing expenditures. Since the original Regulation Z was implemented in 1969, the startup costs of the regulation are sunk costs that no longer figure as current expenditures resulting from the regulation. The purpose of this survey is to estimate the continuing costs of Regulation Z and the transition costs of revised Regulation Z to the mortgage banking industry. Presumably, the continuing costs of Regulation Z represent the savings to the industry (and, by extension, to the consumer) if Regulation Z were eliminated.

In order to measure the continuing costs of Regulation Z, the sampled mortgage banking institutions were asked to estimate their expenses incurred during each of two years, 1980 and 1981, as a direct result of the regulation. The sampled institutions were explicitly asked to exclude from their estimates any costs associated with state consumer protection requirements and other federal and state requirements.

The main concern of the survey was to determine the total costs of Regulation Z in each of the study years. The estimation of the distribution of these regulatory costs by major expense category and subsidiary line items was a secondary goal of the study. In part, the value of the detailed expense breakdown was to encourage sampled institutions to calculate the costs of Regulation Z to the company, rather than simply to offer general estimates. The objective of the survey was to develop reliable estimates of regulatory costs -- not just best guesses.

The responses and behavior of the survey participants lead us to believe that we have collected reasonable estimates of regulatory costs. Mortgage banking institutions generally requested at least a week from the receipt of the survey questionnaire to complete their estimates. Individual respondents reported spending weekends developing these estimates, in order to complete the questionnaire within the field period.

Three-quarters of the sampled firms were able to provide breakdowns of regulatory costs by major expense category. Nearly one-third were willing to provide line-item breakdowns in the worksheets. This is not surprising since a number of participants report that total regulatory expense estimates are not routinely made and they must be generated from the ground up. As the field period for the study was concluding, some participants asked for extensions in order to finish their cost reviews. They were "unwilling to give an estimate off the top of the head."

For these reasons, we have a great deal of confidence in the validity of the cost estimates provided by the sample of mortgage banking institutions.

Mortgage Lending and Regulatory Costs: 1980

The largest mortgage banking firms (Stratum I) report an average of 9,485.9 mortgage loan applications received in 1980 and an average of 6,316.2 mortgage loans made during that year. The average total dollar amount of mortgage loans made by these large institutions in 1980 was $326,494,400. In other words, among the largest firms, the average loan size was $51,692 and loans were made at a loan approval rate of 66% (Table 4).

The average cost of Regulation Z in 1980 was $74,031.2 for mortgage banking firms in the top stratum (Table 5). This represents an average cost of $7.80 for each loan application received, or $11.72 for each mortgage loan made in 1980. The total cost of Regulation Z for every thousand dollars of mortgage loans made by these firms was $0.23 (Table 7).

The midsize mortgage banking firms (Stratum II) report receiving an average of 3,130 mortgage loan applications and making 1,879.4 mortgage loans in 1980. The average total dollar amount of mortgage loans made by a midsize institution was $116,300,400. In other words, the average loan size was $61,882; loans were made at a loan approval rate of 60% among these midsize mortgage banking firms (Table 4).

The average cost of Regulation Z in 1980 was $41,903 for mortgage banking firms in the middle stratum (Table 5). This represents an average cost of $13.39 for each mortgage application received or $22.30 for each mortgage loan made. The total cost of Regulation Z represented $0.36 for every thousand dollars of mortgage loans made by these firms in 1980 (Table 7).

The smaller mortgage banking firms (Stratum III) report an average of 661 mortgage loan applications received and 451.7 mortgage loans made in 1980. The total dollar amount of mortgage loans made by these firms averaged $20,928,600 in 1980. Therefore, mortgage loans averaged $46,333 and loans were made at a loan approval rate of 68% among Stratum III firms (Table 4).

The average cost of Regulation Z for these smaller firms was $13,964 in 1980 (Table 5). This represents an average cost of $21.12 for each mortgage loan application received or $30.91 for each mortgage loan made. For these smaller firms, the total cost of Regulation Z was $0.67 per thousand dollars of mortgage loans made in 1980 (Table 7).

TABLE 4

AVERAGE MORTGAGE LOAN VOLUME: 1980 AND 1981 BY SIZE OF COMPANY

Q.1,4: Approximately how many mortgage loan applications were taken in by your firm in (1981/1980)?

Q.2,5: Approximately how many mortgage loans were made by your firm in (1981/1980)?

Q.3,6: What was the aggregate dollar amount of mortage loans made by your firm in (1981/1980)?

	TOTAL MEAN	STRATUM I MEAN	STRATUM II MEAN	STRATUM III MEAN
1981				
MORTGAGE LOAN APPLICATIONS	2,047.9	7,155.0	2,420.2	922.3
MORTGAGE LOANS	1,333.2	5,081.9	1,727.4	444.7
AGGREGATE DOLLAR AMOUNT OF MORTGAGE LOANS (IN THOUSANDS)	$66,815.8	$278,123.3	$85,975.8	$17,839.5
AVERAGE LOAN SIZE	$50,117	$54,728	$49,772	$40,116
AVERAGE LOAN APPROVAL RATE	65%	71%	71%	48%
1980				
MORTGAGE LOAN APPLICATIONS	2,392.3	9,485.9	3,130.0	661.0
MORTGAGE LOANS	1,523.3	6,316.2	1,879.4	451.7
AGGREGATE DOLLAR AMOUNT OF MORTGAGE LOANS (IN THOUSANDS)	$82,842.8	$326,494.4	$116,300.4	$20,928.6
AVERAGE LOAN SIZE	$54,384	$51,692	$61,882	$46,333
AVERAGE LOAN APPROVAL RATE	64%	67%	60%	68%

TABLE 5

AVERAGE EXPENSES FOR REGULATION Z IN 1980
BY SIZE OF COMPANY

EXPENSE CATEGORY	TOTAL MEAN $	STRATUM I MEAN $	STRATUM II MEAN $	STRATUM III MEAN $
Q.9a: LABOR COSTS (LABOR COSTS MIGHT INCLUDE A COMPLIANCE OFFICER'S SALARY, STAFF TIME SPENT IN PREPARING TRUTH-IN-LENDING STATEMENTS, AND SALARIES AND WAGES FOR OTHER TRUTH-IN-LENDING REQUIREMENTS.)	15,418.2	28,990.6	23,937.5	7,995.3
Q.9b: OTHER ADMINISTRATIVE COSTS (THESE OTHER ADMINISTRATIVE COSTS MIGHT INCLUDE INTERNAL MONITORING OF COMPLIANCE REGULATIONS, COMPUTER PROGRAMMING OR REPROGRAMMING, TRAINING PERSONNEL IN COMPLIANCE REQUIREMENTS, AND SIMILAR THINGS.)	6,683.3	12,305.9	10,049.6	3,782.1
Q.9c: LEGAL SERVICES EXPENSES (THIS MIGHT INCLUDE FEES PAID TO LEGAL COUNSEL TO RESEARCH TRUTH-IN-LENDING REGULATIONS, THE COST OF DRAFTING COMPLIANCE MANUALS, AND COSTS RELATED TO TRUTH-IN-LENDING LITIGATION AND OTHER LEGAL SERVICES.)	3,934.1	11,352.9	4,846.8	1,967.1
Q.9d: PRINTING AND DEVELOPING FORMS AND NOTICES (THIS MIGHT INCLUDE DEVELOPING AND PRINTING TRUTH-IN-LENDING FORMS AND DEVELOPMENT AND PRINTING OF OTHER COMPLIANCE AIDS.)	1,591.4	4,066.5	1,890.5	938.6
Q.9e: EQUIPMENT AND SUPPLIES COSTS (THIS MIGHT INCLUDE THE COST OF CALCULATORS PURCHASED IN ORDER TO COMPUTE APR OR TIL DISCLOSURES, STORAGE FACILITIES FOR TIL FORMS, AND RELATED EQUIPMENT AND SUPPLY COSTS.)	1,216.0	1,632.9	1,747.9	831.5
Q.9f: ALL OTHER COSTS (THIS MEANS ANYTHING THAT YOU HAVE NOT ALREADY REPORTED AS LABOR, ADMINISTRATIVE, LEGAL, PRINTING, OR EQUIPMENT COSTS.)	1,610.2	4,532.1	2,196.9	724.1
Q.10a,b: OVERHEAD AND FRINGE COSTS*	2,908.1	6,928.7	4,922.9	1,322.3
Q.10c: 1980 TOTAL EXPENSES	29,366.8	74,031.2	41,903.0	13,964.0

*ASKED ONLY IF NOT INCLUDED ELSEWHERE.

TABLE 6

AVERAGE EXPENSES FOR REGULATION Z IN 1981
BY SIZE OF COMPANY

EXPENSE CATEGORY		TOTAL MEAN $	STRATUM I MEAN $	STRATUM II MEAN $	STRATUM III MEAN $
Q.7a:	LABOR COSTS (LABOR COSTS MIGHT INCLUDE A COMPLIANCE OFFICER'S SALARY, STAFF TIME SPENT IN PREPARING TRUTH-IN-LENDING STATEMENTS, AND SALARIES AND WAGES FOR OTHER TRUTH-IN-LENDING REQUIREMENTS.)	15,951.9	27,853.4	23,301.4	9,499.7
Q.7b:	OTHER ADMINISTRATIVE COSTS (THESE OTHER ADMINISTRATIVE COSTS MIGHT INCLUDE INTERNAL MONITORING OF COMPLIANCE REGULATIONS, COMPUTER PROGRAMMING OR REPROGRAMMING, TRAINING PERSONNEL IN COMPLIANCE REQUIREMENTS, AND SIMILAR THINGS.)	13,074.0	14,401.1	28,783.7	4,066.5
Q.7c:	LEGAL SERVICES EXPENSES (THIS MIGHT INCLUDE FEES PAID TO LEGAL COUNSEL TO RESEARCH TRUTH-IN-LENDING REGULATIONS, THE COST OF DRAFTING COMPLIANCE MANUALS, AND COSTS RELATED TO TRUTH-IN-LENDING LITIGATION AND OTHER LEGAL SERVICES.)	5,648.3	19,786.4	6,642.2	2,316.5
Q.7d:	PRINTING AND DEVELOPING FORMS AND NOTICES (THIS MIGHT INCLUDE DEVELOPING AND PRINTING TRUTH-IN-LENDING FORMS AND DEVELOPMENT AND PRINTING OF OTHER COMPLIANCE AIDS.)	1,906.5	4,092.6	2,557.5	1,099.5
Q.7e:	EQUIPMENT AND SUPPLIES COSTS (THIS MIGHT INCLUDE THE COST OF CALCULATORS PURCHASED IN ORDER TO COMPUTE APR OR TIL DISCLOSURES, STORAGE FACILITIES FOR TIL FORMS, AND RELATED EQUIPMENT AND SUPPLY COSTS.)	1,570.6	4,341.3	1,770.5	926.2
Q.7f:	ALL OTHER COSTS (THIS MEANS ANYTHING THAT YOU HAVE NOT ALREADY REPORTED AS LABOR, ADMINISTRATIVE, LEGAL, PRINTING, OR EQUIPMENT COSTS.)	1,114.2	3,385.7	1,514.7	490.2
Q.8a,b:	OVERHEAD AND FRINGE COSTS*	3,075.3	7,105.5	5,323.0	1,372.4
Q.8c:	1981 TOTAL EXPENSES	37,144.6	80,139.5	46,235.7	15,893.6

*ASKED ONLY IF NOT INCLUDED ELSEWHERE.

TABLE 7

AVERAGE REGULATORY COSTS PER MORTGAGE LOAN AND MORTGAGE LOAN APPLICATION BY SIZE OF COMPANY: 1980-1981

	STRATUM I MEAN $	STRATUM II MEAN $	STRATUM III MEAN $
1980			
REGULATORY EXPENSES PER LOAN APPLICATION	7.80	13.39	21.12
REGULATORY EXPENSES PER LOAN MADE	11.72	22.30	30.91
REGULATORY EXPENSES PER $1,000 IN LOAN VOLUME	.23	.36	.67
1981			
REGULATORY EXPENSES PER LOAN APPLICATION	11.20	19.10	17.23
REGULATORY EXPENSES PER LOAN MADE	15.77	26.77	35.74
REGULATORY EXPENSES PER $1,000 IN LOAN VOLUME	.29	.54	.89

These findings suggest that the costs of Regulation Z fall disproportionately on the smaller mortgage loan firms. Although the annual expenses for Regulation Z requirements may be five times greater for the large lenders than they are for the small lenders, the cost of Regulation Z as a function of number of applications, number of loans, or total amount of loans -- other things being equal -- highlights the comparative disadvantage of the small firms. The cost of Regulation Z per mortgage application or per loan dollar in 1980 was almost three times greater for the smallest firms than it was for the largest firms.

If we assume that regulatory cost is passed along, in 1980 the average cost of Regulation Z to the consumer per loan made varied from $11.89 on the $51,692 mortgage loan from a Stratum I company, to $22.28 on the $61,882 mortgage loan from a Stratum II company, to $31.02 for the $46,333 loan from a Stratum III company.

Mortgage Lending and Regulatory Costs: 1981

The largest mortgage banking firms (Stratum I) report an average of 7,155 mortgage loan applications received and 5,081.9 mortgage loans made in 1981. The average total dollar amount of mortgage loans made by these firms in 1981 was $278,123,300. Therefore, among the largest firms, the average loan amount was $54,728; the 1981 loan approval rate was 71% among the largest firms (Table 4).

The average cost of Regulation Z was $80,139.5 in 1981 for these large mortgage banking firms (Table 6). This represents an average regulatory cost of $11.20 for each loan application or $15.77 for each loan made in 1981. Among the largest mortgage banking firms, the total cost of Regulation Z was $0.29 per thousand dollars of mortgage loans made in 1981 (Table 7).

The midsize mortgage banking firms (Stratum II) report an average of 2,420.2 mortgage loan applications received and 1,727.4 mortgage loans made in 1981. The average total dollar amount of mortgage loans in 1981 was $85,975,800 for firms in this stratum. Their loans averaged about $49,772 and were made at a loan approval rate of 71% (Table 4).

The average cost of Regulation Z to midsize mortgage banking firms was $46,235.7 in 1981 (Table 6). This represents an average cost of $19.10 for each mortgage loan application received or $26.77 for each mortgage loan made in 1981. Among these midsize firms, the total cost of Regulation Z per thousand dollars of mortgage loans made in 1981 was $0.54 (Table 7).

The smaller mortgage banking firms (Stratum III) report an average of 922.3 mortgage loan applications received and 444.7 mortgage loans made in 1981. Within this stratum, the average total dollar amount of mortgage loans made in 1981 was $17,839,500. Mortgage loans averaged $40,116 in 1981 and were made at an approval rate of 48% for these small firms (Table 4).

The average cost of Regulation Z in 1981 for smaller mortgage banking firms was $15,893.6 (Table 6). This represents an average cost of $17.23 for each mortgage loan application received or $35.74 for each mortgage loan made in 1981. Among these smaller mortgage banking firms, the total cost of Regulation Z was $0.89 per thousand dollars of mortgage loans made in 1981 (Table 7).

The same pattern of disproportionately high regulatory costs borne by the smaller mortgage banking institutions that was observed in 1980 is also observed in 1981. The regulatory cost per thousand dollars of loan volume remains approximately three times greater for the smallest firms than for the largest firms. From the consumer's standpoint, the cost of Regulation Z would vary from $15.86 for a $54,729 loan from a Stratum I company, to $26.84 for a $49,772 loan from a Stratum II company, to $35.69 for a $40,116 loan from a Stratum III company.

Total Cost of Regulation Z to the Mortgage Banking Industry

The sample of 201 mortgage banking companies report that the total expenses of their company in 1980 as a direct result of Regulation Z was $5,804,582. When this sample estimate is projected to the total population of mortgage banking companies engaged in consumer mortgage loan transactions, the estimated annual cost of Regulation Z to the industry in 1980[10] is $11,869,830. The costs of Regulation Z to the 201 companies in the sample increased to $6,428,549 in 1981. The best estimate of the total cost of Regulation Z to the mortgage banking industry in 1981 is $13,228,274, based on sample projections.

[10] The mortgage banking industry is defined here, as it is throughout the report, as the members of the Mortgage Banking Association of America.

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TABLE 8

AGGREGATE COSTS OF REGULATION Z
REPORTED BY SAMPLED COMPANIES: 1980-1981

	TOTAL	STRATUM I	STRATUM II	STRATUM III
1981				
AVERAGE EXPENSES FOR REGULATION Z		$80,139.5	$46,235.7	$15,893.6
NUMBER OF FIRMS IN SAMPLE		22	60	119
AGGREGATE SAMPLE COSTS	$6,428,549	$1,763,069	$2,774,142	$1,891,338
1980				
AVERAGE EXPENSES FOR REGULATION Z		$74,031.2	$41,903.0	$13,964.0
NUMBER OF FIRMS IN SAMPLE		22	60	119
AGGREGATE SAMPLE COSTS	$5,804,582	$1,628,686	$2,514,180	$1,661,716

TABLE 9

AGGREGATE COSTS OF REGULATION Z
FOR TOTAL POPULATION OF MORTGAGE BANKING COMPANIES*

	TOTAL	STRATUM I	STRATUM II	STRATUM III
1981				
AVERAGE EXPENSES FOR REGULATION Z		$80,139.5	$46,235.7	$15,893.6
NUMBER OF FIRMS IN POPULATION		33	100	375
AGGREGATE POPULATION ESTIMATE	$13,228,274	$2,644,604	$4,623,570	$5,960,100
1980				
AVERAGE EXPENSES FOR REGULATION Z		$74,031.2	$41,903	$13,964
NUMBER OF FIRMS IN POPULATION		33	100	375
AGGREGATE POPULATION ESTIMATE	$11,869,830	$2,443,030	$4,190,300	$5,236,500

*MEMBERS OF THE MORTGAGE BANKERS OF AMERICA ASSOCIATION WHO MADE CONSUMER MORTGAGE LOANS IN EITHER 1980 OR 1981.

When the size of the total population is known, as in this instance, the procedure to estimate aggregate population characteristics from sample characteristics is very straightforward. To derive the best estimate of the aggregate Y, we multiply the sample mean ($\bar{y}$) by the total population size (N) for the aggregate estimate ($N\bar{y}$). Since we have a stratified sample, this calculation is conducted separately for each population stratum and summed.

III. LENDERS' ATTITUDES TOWARD REGULATION Z

Introduction

The primary objective of this study was to collect estimates of the costs of Regulation Z and the transition costs to revised Regulation Z among a representative sample of the mortgage banking industry. Although the Joint Economic Committee did not request an attitude survey as part of this study, the regulatory cost survey provided an opportunity to gauge lenders' attitudes toward Regulation Z, as well as their expenses as a result of the regulations. As part of the Federal Reserve Board study, the depository lenders were asked a series of questions about their attitudes toward Regulation Z. Those questions were replicated in the FTC survey of mortgage banking companies.

Most Costly Aspects of Regulation Z

In order to identify the most burdensome aspects of Regulation Z, we asked the national sample of mortgage banking companies: "Which aspects or provisions of Regulation Z have been most costly to your institution?"[11]

[11] It should be noted that the question does not discriminate between original Regulation Z and revised Regulation Z. Consequently, some of the costs reported, such as form changes, may be a result of transition costs.

The aspects of Regulation Z most commonly cited by mortgage bankers as most costly to their institutions tend to involve the labor costs associated with disclosure (Table 10). Specifically:

-- Explaining the APR and other disclosures to consumers is cited as the most costly aspect of Regulation Z by 22% of mortgage bankers;

-- Computing the Annual Percentage Rate (APR) and other finance charges is cited by 21%;

-- Filling out forms is cited by 13%; and

-- Auditing and compliance monitoring is cited by 12%.

In addition to these direct labor expenses, the costs of training personnel to meet the disclosure standards place a major burden on mortgage banking firms. Nearly one-quarter of the companies (24%) report training of personnel as one of the most costly aspects of Regulation Z.

A number of mortgage lenders indicate that the costs of the forms themselves are among the most costly aspects of Regulation Z. Those costs were specifically cited as:

-- Printing, by 14% of mortgage bankers;

-- Form changes by 13%; and

-- Redesigning of forms by 4%.

Regulation Z is also associated with legal costs by a number of mortgage banking institutions. Fees for legal advice are among the most costly aspects of Regulation Z for 14% of mortgage bankers. This is more common among large (18%) and midsize firms (20%) than small firms (10%). Similarly, the cost of law suits as a result of Regulation Z is cited more often by larger mortgage lenders. While the cost of lawsuits is cited as one of the most costly aspects of Regulation Z by 4% of all mortgage bankers, the

TABLE 10

MOST COSTLY ASPECTS OF REGULATION Z

Q.17: Which aspects of provisions of Regulation Z have been most costly to your institution? Please explain.

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	200	22	60	118
	%	%	%	%
NONE	4	-	5	3
FORM CHANGES REQUIRED TOO OFTEN	13	14	20	9
DISCLOSURE STATEMENT REQUIREMENTS	13	14	15	12
COMPUTATION OF ANNUAL PERCENTAGE RATE (APR) AND OTHER FINANCE CHARGES	21	23	20	21
EXPLAINING ANNUAL PERCENTAGE RATE (APR) AND OTHER DISCLOSURES TO CONSUMER	22	23	17	25
LEGAL ADVICE	14	18	20	10
PRINTING COSTS	14	9	15	14
RECORDKEEPING	7	9	3	8
AUDITING, COMPLIANCE MONITORING	12	23	12	11
CIVIL LIABILITIES, COST OF LAWSUITS	4	9	5	2
TRAINING OF PERSONNEL	24	23	28	21
INCREASED PERSONNEL TIME, TIME SPENT ON FILLING OUT FORMS	13	9	12	14
COST OF REDESIGNING FORMS	4	4	10	2
COST OF COMPUTER PROGRAMMING/ REPROGRAMMING	6	14	10	2
COST OF CALCULATORS/ NEW CALCULATORS	2	-	2	2
RIGHT OF RECISION	4	-	3	4
OTHER	4	4	3	4
NOT SURE	4	-	8	3

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

incidence rises from 2% in smaller firms, to 5% in the midsize firms, to 9% in the largest firms. These differences, however, are not sufficiently large to exceed the limits of sampling error.

One type of legal problem that can arise in connection with Regulation Z is described by a mortgage lender: "We went to the settlement table on a particular mortgage loan and handed all of the papers over to be signed. The borrower reviewed all of the papers, including the disclosure forms, signed them, and returned them to us. Only after we had concluded the meeting did we realize that the Regulation Z disclosure form had not been signed. We called the borrower and told him that he had neglected to sign the document. He replied that he had never been shown the document and had already instructed his attorney to file suit."

A small proportion of mortgage bankers identify several other aspects of Regulation Z as the most costly to their institutions. The cost of calculators is cited by 2%, the right of recision is cited by 4%, and the cost of computer programming is cited by 6%. While the cost of computer programming is cited by only 2% of the smaller firms, 14% of the largest mortgage banking institutions cite computer costs as an important source of costs incurred as a function of complying with Regulation Z. Because of the size of the subsamples, however, the differences among strata do not exceed the limits of sampling error.

Unlike most regulations, the burden of recordkeeping does not appear to be especially serious under Regulation Z. Only 7% of the mortgage bankers cite recordkeeping as one of the most costly aspects of the regulation to their institution.

No single aspect or provision of Regulation Z emerges from the survey data as the most burdensome aspect of the regulation. However, several of the most costly aspects of Regulation Z are related to the computation and disclosure of the annual percentage rate. Since the APR has always been considered one of the keystones of the Truth-in-Lending regulation, the most burdensome aspects of the regulation are also the most fundamental to the law.

Benefits of Regulation Z

It is not surprising that when mortgage bankers are asked which aspects of Regulation Z are most costly to their institution only 4% say "none." Regulation is bound to impose certain costs and burdens on the regulated entities. Similarly, we would not expect regulated firms to be the primary beneficiaries of Regulation Z. The intent of Regulation Z was to promote the consumer's understanding of credit transactions by providing the consumer with clear and uniform disclosure of the costs and terms of credit. This would permit the consumer to comparison shop among lenders. By thus making the consumer credit market more efficient, Regulation Z should also benefit the more efficient firms.

We investigated the mortgage lenders' perceptions of the benefits of Regulation Z to both the lender and the consumer. The national sample of mortgage banking institutions was asked: "Which aspects or provisions of Regulation Z, in your opinion, provide mortgage lenders with benefits that they would otherwise not receive?" Seventy-seven percent (77%) of the mortgage bankers say "none" (Table 11). There is no significant variation in this attitude among the large, medium, and small institutions.

TABLE 11

BENEFITS TO MORTGAGE LENDERS

Q.18: Which aspects or provisions of Regulation Z, in your opinion, provide mortgage lenders with benefits that they would otherwise not receive?

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	199	22	59	118
	%	%	%	%
BORROWERS UNDERSTAND REGULATIONS BETTER	7	4	3	9
UNIFIES FASHION OF DISCLOSURE	6	4	3	8
ITEMIZES FEE-CLOSING COSTS, NO HIDDEN CHARGES	8	4	7	8
HELPS TO PROTECT THE LENDERS	5	-	8	4
OTHER	3	4	5	2
NOT SURE	1	-	2	1
NONE	77	82	75	77

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

Some mortgage banking firms feel that the regulation does provide some benefits to the mortgage lender. Itemizing fee closing costs is cited as a benefit by 8% of mortgage bankers; helping borrowers to understand regulations better is cited as a benefit by 7%; and unifying the format of disclosures is cited as a benefit by 6%. The mortgage bankers who feel that Regulation Z helped to protect the lender account for only 5% of the industry and none of the larger institutions.

None of the reported "benefits" of Regulation Z to the lender are necessarily self-explanatory. Perhaps the most interesting benefit cited by the mortgage banking firms is that Regulation Z unified the format of disclosures. The primary goal of uniform disclosure of interest charges and other finance fees was to protect the consumer and to encourage competitive rates. Consequently, this provision should benefit only the most competitive segments of the industry.

Mortgage bankers were asked directly: "Has Regulation Z helped your institution by requiring other lenders to disclose their charges for credit in a uniform fashion?" The response of the mortgage banking industry is similar to that given to the more general question about the benefits of Regulation Z (Table 12). Seventy-seven percent of the institutions say that uniform disclosure of credit charges as mandated by Regulation Z has not helped their institutions. Twenty-one percent, however, say that uniform disclosure has helped their institutions.

The fascinating question of which types of mortgage lending institutions benefit from disclosure of rates must be left unanswered in this study. No significant difference is found between large and small institutions. No other institution descriptors are available in the data set. Nevertheless, it would appear that approximately 1 in 5 mortgage banking firms feel that they have benefited from uniform disclosure of credit costs to consumers.

A much more substantial portion of the sample mortgage banking firms see benefits to consumers from the regulations. The mortgage bankers were asked: "Which aspects or provisions of Regulation Z, in your opinion, provide consumers with benefits that they would otherwise not receive?" The aspects of Regulation Z most often cited by mortgage bankers as providing consumers with benefits otherwise unavailable were (Table 13):

-- Disclosure of the actual cost of credit, cited by 25%;

-- Permits comparison of cost of credit between lenders, cited by 23%;

-- Full disclosure prior to consummation, cited by 10%; and

-- Right to recision, cited by 6%.

Even though two-thirds of the sampled mortgage bankers see benefits to the consumer from Regulation Z, the remaining one-third of the institutions surveyed (34%) feel that "none" of the provisions of Regulation Z provide consumers with benefits that they would not otherwise receive. There is no significant variation in this attitude between large and small mortgage bankers.

Eliminating Regulation Z

Three-quarters of the mortgage banking industry see no benefits to the lender from Regulation Z, while one-third see no benefits to the borrower. In addition, virtually all mortgage bankers report that their institutions have incurred costs as a result of Regulation Z.

TABLE 12

HELPFULNESS OF UNIFORM DISCLOSURE

Q.20: Has Regulation Z helped your institution by requiring other lenders to disclose their charges for credit in uniform fashion?

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	201	22	60	119
	%	%	%	%
YES, HAS HELPED	21	18	23	20
NO, HAS NOT HELPED	77	82	75	77
NOT SURE	2	-	2	2

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

TABLE 13

BENEFITS TO CONSUMERS

Q.19: Which aspects or provisions of Regulation Z, in your opinion, provide consumers with benefits that they would otherwise not receive? Please explain.

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	200	22	60	118
	%	%	%	%
NONE	34	36	33	33
DISCLOSES ACTUAL COST OF CREDIT	25	23	20	28
PERMITS COMPARISON OF COST OF CREDIT AND/OR APR BETWEEN LENDERS	23	32	28	19
STANDARDIZES POLICIES AND PROCEDURES	2	-	2	2
REQUIRES FULL DISCLOSURE PRIOR TO CONSUMMATION	10	-	12	11
RIGHT TO RECISION	6	9	7	5
DISCLOSURE FORMS	6	4	8	5
MONTHLY PAYMENT SCHEDULE	6	9	7	5
OTHER	4	-	7	2
NOT SURE	6	4	3	8

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

The question arises: What if there were no Regulation Z? Presumably the costs to the lenders could be eliminated. Would the basic elements of mortgage transactions under the current regulations be retained without the regulation?

For each of seven elements in the current disclosure requirements the national sample of mortgage bankers was asked: "If Regulation Z were eliminated, would you keep the present disclosure basically the same, modify it substantially, or drop it altogether?" Not surprisingly, only one of the seven disclosure areas receives majority support for its retention. Two areas of disclosure yield majorities in favor of dropping them altogether (Table 14).

The only disclosure requirement that a majority of mortgage bankers (57%) say that they would keep basically the same if Regulation Z were eliminated concerns the payment schedule. Mortgage bankers say that borrowers must know how much they will have to pay each month for the period of the loan, regardless of the existence of Regulation Z.

The least popular of the current disclosure requirements is the annual percentage rate. Only 23% of mortgage bankers report that they would keep that disclosure basically the same if Regulation Z were eliminated. By contrast, 56% of mortgage bankers say that they would drop the disclosure of APR altogether. In fact, for this item, the "would drop" percentage is higher and the "would retain" percentage is lower than it is for any other information disclosure item mandated by Regulation Z.

Two primary reasons for the mortgage bankers' opposition to the APR disclosure can be deduced. First, some of the costs associated with Regulation Z requirements that the mortgage bankers cite most often are associated with the calculation and explanation of the APR.

TABLE 14

ATTITUDES TOWARD REQUIREMENTS OF REGULATION Z

Q.16a: If Regulation Z were eliminated, would you keep the present disclosure of annual percentage rate basically the same, modify it substantially, or drop it altogether?

Q.16b: If Regulation Z were eliminated, would you keep the present disclosure of finance charge basically the same, modify it substantially, or drop it altogether?

Q.16c: If Regulation Z were eliminated, would you keep the present disclosure of payment schedule basically the same, modify it substantially, or drop it altogether?

Q.16d: If Regulation Z were eliminated, would you keep the present disclosure of total of payments basically the same, modify it substantially, or drop it altogether?

Q.16e: If Regulation Z were eliminated, would you keep the present disclosure of amount financed basically the same, modify it substantially; or drop it altogether?

Q.16f: If Regulation Z were eliminated, would you keep the present disclosure of early estimate basically the same, modify it substantially, or drop it altogether?

Q.16g: If Regulation Z were eliminated, would you keep the present disclosure of right of recision basically the same, modify it substantially, or drop it altogether?

BASE: 201		KEEP THE SAME	MODIFY SUBSTANTIALLY	DROP ALTOGETHER	NOT SURE
ANNUAL PERCENTAGE RATE	%	23	20	56	1
FINANCE CHARGE	%	30	27	42	1
PAYMENT SCHEDULE	%	57	18	23	2
TOTAL OF PAYMENTS	%	46	8	44	2
AMOUNT FINANCED	%	28	23	47	1
EARLY ESTIMATE	%	38	19	39	4
RIGHT OF RECISION	%	33	10	53	3

Second, some mortgage bankers feel that the annual percentage rate is frequently misleading. One mortgage banker argues, "The APR does not reflect the internal rate of return to the firm, since one firm may realize a better profit than another through peripheral transactions not covered by the APR." Other mortgage bankers complain that as the number of adjustable rate mortgages (ARM's) or other nontraditional mortgage instruments increases, "the annual percentage rate becomes absolutely meaningless" and "it can be genuinely deceptive." Mortgage lenders tend to feel that disclosure of the APR is one of the least desirable Regulation Z requirements for them. Some mortgage bankers feel that APR is becoming increasingly less useful, if not counterproductive, in providing useful information to the consumer in the current mortgage market.

Other than payment schedule, the only disclosure that a substantial portion of mortgage bankers say they would maintain basically as is, even without Regulation Z, is the <u>total of payments</u>. Nearly half (46%) of the sample say that they would keep the disclosure of total of payments basically the same. At the same time, nearly an equal number of institutions (44%) say that they would drop it altogether. The reason for this antipathy may have something to do with the difficulty in calculating the total payments under conditions of variable rate loans. However, some mortgage lenders dislike the total of payments disclosure because the amount -- frequently calculated over a thirty-year period -- "frankly scares people," and that is bad for the lending business.

One rather puzzling finding of the survey is that 47% of the lenders say that they would drop the disclosure of the <u>amount financed</u> if Regulation Z were eliminated. Since the amount financed is a fundamental requirement of any mortgage contract, it is not at all clear how (or why) disclosure could be avoided -- regardless of Regulation Z.

For the remaining disclosure areas, the survey finds that 53% of mortgage lenders would drop the disclosure of the right of recision if Regulation Z were eliminated, while 33% would retain it. The disclosure of the finance charge would be dropped by 42% of lenders, but 30% of lenders say they would retain it. The mortgage bankers are nearly evenly split on the disclosure of early estimates, with 39% saying that they would drop it and 38% saying that they would keep it basically the same. Since the early estimates disclosure is a relatively new regulatory requirement, there is possibly some confusion about it among mortgage bankers.

It is clear from the responses of the mortgage banking industry that many of the current federally required disclosures would disappear from mortgage transactions if Regulation Z were eliminated. In part, this is due to objections to the appropriateness of some of the disclosure requirements (APR) to current market conditions (variable rate mortgages). At the same time, part of the industry resistance to the regulatory requirements reflects a basic disagreement about the main premise of the Truth-in-Lending Act. One of the important benefits that TIL requirements assume is comparison shopping for credit by consumers. A number of mortgage bankers explain some of their negative reactions to Regulation Z requirements in terms of their doubts about the frequency of comparison shopping for credit by consumers. As the president of one mortgage banking firm notes: "Customers do not use disclosure information to shop for their mortgage loans. I wish that you would make that point clear to the FTC and whoever [sic] reads your report." A senior official with another mortgage banking firm reports that no more than

10% to 15% of his bank's customers actually shop for credit; the rest have already been lined up through builders or real estate agents.[12] Many mortgage bankers argue, therefore, that Regulation Z provides little benefit to consumers.

One striking pattern in the mortgage bankers' responses to the question about how they would treat disclosure areas if there were no Regulation Z is that few choose the middle ground between retaining the disclosure and dropping it. The proportion of mortgage lenders who say that they would modify the disclosure substantially if Regulation Z were eliminated is fairly small. Apparently, mortgage bankers tend to see the choice presented to them as choosing between two alternatives -- retaining or dropping the existing requirements.

There are some noteworthy differences in the lenders' attitudes toward the retention of the disclosure requirements of Regulation Z (Table 15). In every one of the seven areas, the proportion of the smaller mortgage banking firms that would retain the disclosure basically "as is" is greater than the corresponding proportion of large firms. In four of the seven areas, the likelihood of retaining existing disclosure practices, even if Regulation Z were eliminated, is much greater in the small and midsize firms than in the large firms.

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[12]This estimate can be compared to the finding of the 1977 Consumer Credit Survey that 24.5% of consumers who had closed-end installment obligations reported some attempt to obtain information from more than one lender. See Thomas Durkin and Gregory Elliehausen, 1977 Consumer Credit Survey, Board of Governors of the Federal Reserve System.

It is unlikely that either of these data patterns obtain by chance alone. Statistical analyses of these patterns suggest strongly that firms' recorded responses regarding the retention of information disclosures required by Regulation Z, either "as is" or even if the regulation were eliminated, are moderated by the size of the firm.[13] In both of these instances, small firms rather than large firms are more likely to report wishing to retain -- unchanged -- the disclosure requirements.

For small firms, in particular, the costs of changing a practice may far outweigh the costs of continuing it. The staff has already been trained. The forms have been designed and printed. The calculators have been purchased. At this point, any change is going to involve temporary disruption and additional out-of-the-pocket expenses for new forms and additional training.

[13] Binomial probabilities were calculated to determine the likelihood of occurrence attached to the consistent data patterns that emerge as a function of firm size. Assuming a binomial probability of 0.5 (p=q), the probability that small firms would retain "as is" each of the seven information disclosure items required by Regulation Z is .0078. Thus, such a result would obtain by chance alone in only 1 of 128 assessments. However, with three choice alternatives provided, the a priori probability of selecting any alternative may be more properly fixed at p=.33. Here, the binomial probability attached to the observed pattern of results is .0004; that is to say, such a result would obtain by chance alone in only one of 2,500 uses. The probabilities attached to the observed data pattern regarding retention of information disclosures if Regulation Z were eliminated are .2734 (p=q) and .1248 (p=.33). Clearly, even though the relationship between firm size and attitudes is attenuated compared to that described above, the probability that the data pattern observed would obtain by chance alone is relatively low.

TABLE 15

ATTITUDES TOWARD RETENTION OF REGULATION Z
REQUIREMENTS BY COMPANY SIZE

Q.16a: If Regulation Z were eliminated, would you keep the present disclosure of annual percentage rate basically the same, modify it substantially, or drop it altogether?

Q.16b: If Regulation Z were eliminated, would you keep the present disclosure of finance charge basically the same, modify it substantially, or drop it altogether?

Q.16c: If Regulation Z were eliminated, would you keep the present disclosure of payment schedule basically the same, modify it substantially, or drop it altogether?

Q.16d: If Regulation Z were eliminated, would you keep the present disclosure of total of payments basically the same, modify it substantially, or drop it altogether?

Q.16e: If Regulation Z were eliminated, would you keep the present disclosure of amount financed basically the same, modify it substantially, or drop it altogether?

Q.16f: If Regulation Z were eliminated, would you keep the present disclosure of early estimate basically the same, modify it substantially, or drop it altogether?

Q.16g: If Regulation Z were eliminated, would you keep the present disclosure of right of recision basically the same, modify it substantially, or drop it altogether?

	KEEP THE SAME			
	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	201	22	60	119
	%	%	%	%
ANNUAL PERCENTAGE RATE	23	18	28	22
FINANCE CHARGE	30	27	30	30
PAYMENT SCHEDULE	57	36	57	60
TOTAL OF PAYMENTS	46	23	43	52
AMOUNT FINANCED	28	18	28	30
EARLY ESTIMATE	38	23	35	42
RIGHT OF RECISION	33	32	28	36

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

This insight is generated by the reaction of some of the small mortgage banking firms when asked about the cost of Regulation Z to their firm in 1980 and 1981. "The cost in 1980 and 1981 wasn't very much," says one mortgage banker, "but that is not a fair test of the cost of the regulation. The real cost of the regulation was incurred when it was first promulgated." Legal advice had to be obtained, staff trained, forms designed and printed, old forms destroyed, new equipment bought or leased, etc. Once such startup costs have been incurred, the continuing costs are far less dramatic.

These data patterns suggest three broader conclusions about regulatory revision:

1. We cannot assume that all of the "costs" of a regulation to an industry will be saved by the elimination of existing requirements, e.g., some firm officials say that they would retain disclosures, even if Regulation Z were eliminated. If regulatory practices, as well as regulatory requirements, are not eliminated by deregulation, some of the costs ascribed to regulation will continue to be experienced under deregulation.

2. We cannot assume that regulatory revisions will necessarily be popular with a regulated industry. If we consider the companies' sunk costs in existing personnel, equipment, and programs, "improvements" in regulatory requirements may be more costly and burdensome than a continuation of the status quo.

3. We can assume that the costs and benefits of regulatory reform fall unequally on small and large firms just as the costs and benefits of the initial regulations do.

Attitudes Toward Regulation Z among Nonrespondents

As noted in the first chapter of this report, 43 of the eligible mortgage banking companies contacted in this survey were either unable or unwilling to provide cost estimates of their expenses for Regulation Z. However, these companies were willing to answer the attitudinal questions relating to Regulation Z. This information was collected in a short-form interview, which excluded cost questions.

Comparing the attitudes toward Regulation Z of the 43 companies with short interviews with those of the 201 companies with complete interviews permits analysis of nonresponse bias. The distribution of short interviews by strata -- 2% in Stratum I, 21% in Stratum II, and 77% in Stratum III -- is comparable to the general distribution of eligible mortgage banking companies across Stratum I (6%), Stratum II (20%), and Stratum III (74%) (Table 2). Thus, if there were a systematic difference between those who were able or willing to estimate the cost of Regulation Z and those who were not able or willing to estimate costs, one would expect to find a systematic difference between the two groups in their attitudes toward Regulation Z.

A comparison of the attitudes of survey respondents (Table 14) and nonrespondents who answered the short interview forms (Table 16) does reveal some differences. The nonrespondents are slightly more likely to say that they would retain current disclosure requirements in the absence of Regulation Z, and they are somewhat less likely to say that they would drop them altogether. There is also a noticeably more widespread uncertainty (not sure) in the attitudes among nonrespondents toward Regulation Z than among respondents. However, with the respective sample sizes of 43 and 201 cases, any difference between samples that does not exceed ± 16 percentage points may simply be the result of sample fluctuation. The comparison of the attitudes of respondents and nonrespondents does not reveal any statistically significant differences in the two samples. Thus, there appears to be little evidence that those mortgage bankers who did complete the full questionnaire differ in attitude and, by extension, experience from those who did not. This finding should increase confidence in the representativeness of the sample.

TABLE 16

ATTITUDES TOWARD REQUIREMENTS OF REGULATION Z
AMONG SURVEY NONRESPONDENTS

Q.16a: If Regulation Z were eliminated, would you keep the present disclosure of annual percentage rate basically the same, modify it substantially, or drop it altogether?

Q.16b: If Regulation Z were eliminated, would you keep the present disclosure of finance charge basically the same, modify it substantially, or drop it altogether?

Q.16c: If Regulation Z were eliminated, would you keep the present disclosure of payment schedule basically the same, modify it substantially, or drop it altogether?

Q.16d: If Regulation Z were eliminated, would you keep the present disclosure of total of payments basically the same, modify it substantially, or drop it altogether?

Q.16e: If Regulation Z were eliminated, would you keep the present disclosure of amount financed basically the same, modify it substantially, or drop it altogether?

Q.16f: If Regulation Z were eliminated, would you keep the present disclosure of early estimate basically the same, modify it substantially, or drop it altogether?

Q.16g: If Regulation Z were eliminated, would you keep the present disclosure of right of recision basically the same, modify it substantially, or drop it altogether?

BASE: 43		KEEP THE SAME	MODIFY SUBSTANTIALLY	DROP ALTOGETHER	NOT SURE
ANNUAL PERCENTAGE RATE	%	19	23	49	9
FINANCE CHARGE	%	35	23	35	7
PAYMENT SCHEDULE	%	58	26	7	9
TOTAL OF PAYMENTS	%	49	14	30	7
AMOUNT FINANCED	%	33	30	30	7
EARLY ESTIMATE	%	37	26	23	14
RIGHT OF RECISION	%	44	9	37	9

IV. REVISED REGULATION Z

Introduction

The Truth-in-Lending Act and Regulation Z produced frequent complaints and objections from mortgage lending institutions. The requirements of Regulation Z were criticized as complex and hard to implement, and as sometimes producing information disclosures that highlighted obscure rather than important information. In addition, the mortgage lending institutions complained that Regulation Z generated costly litigation -- often over the technicalities rather than the substance of the law.

From 1977 to 1980 a series of measures was introduced in both Houses of Congress to overhaul the Truth-in-Lending Act. In 1980, the Truth-in-Lending Simplification and Reform Act was adopted by the Congress as part of the Depository Institutions Deregulation and Monetary Control Act (P.L. 96-221). The enactment of the Truth-in-Lending Simplification Act was followed by a revised version of Regulation Z issued by the Federal Reserve Board.

The new regulation made five major revisions to the original Regulation Z:[14]

1. Changes to provide consumers with simpler, more understandable information.

   -- Only key disclosure items remain (e.g., Finance Charge, APR, total cost of credit);

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[14]Regulatory analysis of revised Regulation Z, 46 FR 20848, pp. 91-92.

-- The number of disclosures for closed-end transactions, including mortgage loans, was reduced sharply (the number of items was reduced).

2. Changes to make compliance easier for creditors.

-- The Federal Reserve Board must now construct and distribute model forms for creditors' use; this, if employed properly, guarantees compliance;

-- Tolerance limits were set on APR (i.e., $\pm$ .125%) so that redisclosure of items is infrequently required;

-- In the future there must be at least six months' notice before compliance with amendments is required;

-- Clear definitions and standards of applicability were provided.

3. Changes affecting civil liability provisions.

-- Liability was limited to key items of disclosure;

-- The period of correcting errors was increased fourfold, to 60 days;

-- (Bona fide errors) defense was extended to include all aspects of good faith estimates.

4. Changes to strengthen administrative restitution enforcement.

-- Administrative agencies must order refunds to consumers as appropriate (e.g., APR is understated, creditor makes errors in calculation).

5. Changes to clarify legal issues.

-- Increasing creditor flexibility in preparing disclosures was tailored to meet the requirements of individual transactions;

-- Clearer definitions and criteria for determining disclosure applicability on items such as right of recision, security interests, etc., were provided.

These changes in the original Regulation Z were expected to reduce lenders' expenses for legal fees, labor costs, training, and related costs associated with the more extensive and complex disclosure requirements of the original Regulation Z. It was recognized that the conversion from old Regulation Z to revised Regulation Z would require new startup costs. It was assumed, however, that the conversion would ultimately lower the continuing costs of compliance with the law and in the long run produce a net savings for mortgage bankers.

Adoption of Revised Regulation Z

The current deadline for adherence to the requirements of the amended Act and revised Regulation Z is October 1982. By July 1982, a substantial portion of the mortgage banking industry had already begun conducting loan transactions under the new regulation (Table 17). An additional segment of the industry reported that they had begun conversion of transaction procedures to the new regulations, but had not yet conducted any transactions under revised Regulation Z. However, only three months before the deadline, a large number of mortgage banking firms had not even begun conversion to the new regulation. Part of this delay in conversion may be attributed to uncertainty in the industry as to whether the implementation of the new regulations would be postponed again or even dropped. Some lending institutions indicated that they were reluctant to incur the costs of conversion unless they were certain that the regulation would be implemented on schedule.

By the time of the July 1982 interviews, at least one-third (33%) of mortgage banking institutions had begun converting from original Regulation Z

Q.11b

TABLE 17

DATE OF CONVERSION TO REVISED REGULATION Z

Q.: When did you begin converting from original Regulation Z to revised Regulation Z?

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	201	22	60	119
	%	%	%	%
DATE GIVEN	33	41	50	29
NOT SURE	8	-	5	10
HAVE NOT CONVERTED	58	59	45	61

DATE OF CONVERSION		STRATUM I	STRATUM II	STRATUM III
		N	N	N
1980		-	2	-
1/81		-	1	3
2/81		-	-	-
3/81		-	-	-
4/81*		-	-	1
5/81		-	-	1
6/81		-	-	-
7/81		-	-	-
8/81		1	1	-
9/81		2	1	-
10/81		-	1	4
11/81		2	1	4
12/81		-	2	-
1/82		2	5	-
2/82		1	1	3
3/82		-	4	4
4/82		-	7	5
5/82		-	1	5
6/82		-	3	4
7/82		1	-	-

*DATE REVISED REGULATION Z WAS PUBLISHED.

to revised Regulation Z. Approximately 41% of the largest companies, 50% of the midsize companies, and 29% of the smallest companies reported that they had already begun conversion. The extent of conversion in the mortgage banking industry may be considered to be as high as 41%, if those who answered "not sure" to the question: "When did you begin converting from original Regulation Z to revised Regulation Z?" are treated as having begun conversion. Most of the firms who are uncertain about their conversion status are the small firms with loan origination volumes of less than $50 million.

The conversion of at least a third of the mortgage banking industry to revised Regulation Z means that a substantial number of mortgage loan transactions are now being conducted under the new regulation. In order to estimate the proportion, we asked our national sample of mortgage banking institutions: "At the present time, in what proportion of your transactions are you using revised Regulation Z?" (Table 18). Among firms who have begun converting to the new regulation, 60% of current transactions are being conducted under revised Regulation Z. This means that approximately 26% of all mortgage loans being processed by mortgage banking institutions in June 1982 were being transacted under revised Regulation Z. The proportion of revised Regulation Z transactions varied from 21% of transactions being conducted by the largest firms, to 30% of the transactions being conducted by the midsize firms, to 25% of the transactions being conducted by the smaller firms. The largest firms seem somewhat slower to adopt the new regulations than smaller firms.

TABLE 18

PROPORTION OF CURRENT TRANSACTIONS
CONDUCTED UNDER REVISED REGULATION Z

Q.11a: At the present time, on what proportion of your transactions are you using revised Regulation Z? Your best estimate is fine.

BASE	STRATUM I	STRATUM II	STRATUM III	
	20	60	119	
	%	%	%	
PROPORTION OF TRANSACTIONS UNDER REVISED REGULATION Z				
0%	68	43	63	
1-24%	4	18	5	
25-49%	4	-	4	
50-74%	4	7	4	
75-99%	4	5	5	
100%	14	18	12	
NO REPLY	4	8	7	
				TOTAL:
MEAN PROPORTION	20.8%	29.9%	25.1%	26.1%

Costs of Conversion

Those mortgage banking institutions that have already begun to convert to revised Regulation Z have already spent an average of 270 work hours in converting to the new regulation (Table 19). The number of hours needed to convert from the old regulatory requirements to the new regulatory requirements varies by the size of the company. The largest firms, those with loan origination volumes of over $200 million, have spent an average of 600 work hours in converting to the new regulation. The midsize firms, those with loan origination volumes between $50 million and $200 million, have spent an average of 287 hours in converting to the new regulations. The smaller firms, those with loan origination volumes less than $50 million, have spent an average of 175 work hours in converting from the old regulations. It should be noted, however, that the conversion process may not be complete in these firms. Only 60% of their current transactions are being conducted under revised Regulation Z. Consequently, the number of hours needed to convert to the new system may still increase somewhat for these firms.

The number of work hours spent in the conversion from old Regulation Z to revised Regulation Z is only one of the costs of conversion. The firms that report that they had begun converting to revised Regulation Z were asked for their best estimates of the costs that they had incurred to date in converting to revised Regulation Z. The average cost of converting to the new regulation varies from $34,781 for the largest firms, to $31,242 for the midsize firms, to $12,031 for the small firms (Table 20). As might be expected, the largest costs incurred in the conversion process were labor costs, legal services expenses, and other administrative costs.

TABLE 19

WORK HOURS NEEDED TO CONVERT TO REVISED REGULATION Z
BASE: USE REVISED REGULATION Z

Q.13: What would you estimate was the approximate number of work hours required for your firm to convert to revised Regulation Z?

	STRATUM I	STRATUM II	STRATUM III	
BASE	10	33	41	
	%	%	%	
NUMBER OF WORK HOURS				
0	10	6	5	
1-40	-	12	37	
41-80	10	12	20	
81-120	10	9	12	
121-160	30	3	10	
161-200	-	12	5	
201-240	-	6	2	
241-280	-	6	-	
281-320	10	6	2	
MORE THAN 320	30	27	7	
				TOTAL:
MEAN	599.5	287.4	175.9	270.1

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TABLE 20

COSTS OF CONVERSION TO REVISED REGULATION Z
BASE: USE REVISED REGULATION Z

Q.12: I would like your best estimate of the costs that your firm has incurred to date in converting to revised Regulation Z. Once again, let me ask you for each of the six general expense categories.

	TOTAL MEAN $	STRATUM I MEAN $	STRATUM II MEAN $	STRATUM III MEAN $
LABOR COSTS	10,250.9	15,945.3	17,092.7	4,580.4
OTHER ADMINISTRATIVE COSTS	4,253.2	6,817.2	4,979.6	3,214.5
LEGAL SERVICES COSTS	4,399.7	11,127.8	5,627.0	2,060.3
PRINTING AND DEVELOPMENT COSTS	1,853.9	2,531.7	2,951.2	903.6
EQUIPMENT AND SUPPLY COSTS	2,119.5	2,366.2	4,277.6	601.4
OTHER COSTS	1,118.2	187.5	2,293.8	507.4
OVERHEAD AND FRINGE COSTS	1,364.2	724.7	1,822.5	1,223.5
TOTAL COSTS	21,855.8	34,780.7	31,242.4	12,031.1

It is clear that transition to revised Regulation Z has resulted in costs to the firms that have converted. If the reported conversion costs are treated as final conversion costs, then the total costs of regulatory conversion can be calculated for the industry in the same manner that the annual regulatory costs were estimated for 1980 and 1981. Using this approach, we estimate that the aggregate cost of converting to revised Regulation Z is $8,783,598 for the mortgage banking industry (Table 21).

The estimated costs of regulatory conversion represent about 74% of the estimated annual expenses of the industry for Regulation Z, if we use 1980 as a base year.[15] Even if we assume that expenses for conversion, to date, are incomplete, it seems unlikely that the total startup costs will exceed an amount equal to one year's continuing regulatory costs. As a result, the cost of conversion to Regulation Z can be approximated, if not precisely measured.

Revised Regulation Z: An Early Assessment

It was recognized that there might be substantial startup costs associated with revised Regulation Z when the Truth-in-Lending Simplification Act was passed.[16] However, the assumption was that the new regulation would also generate substantial savings in the ongoing costs of complying with the Truth-in-Lending law. In the long run, it was believed, the difference between the additional conversion costs and the decreased regulatory compliance costs would produce a net savings to the mortgage banking industry.

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[15] Since 1981 costs may include costs of transition to revised Regulation Z, it is not an appropriate base year.

[16] Board of Governors of the Federal Reserve System, "Regulatory Analysis of Revised Regulation Z," 46 FR 20848.

This assumption has not yet been realized in the experience of those who have already converted to the revised regulation. The mortgage banking companies that had converted to revised Regulation Z were asked: "Have any expenses that were incurred under the original Regulation Z been reduced or eliminated under the revised Regulation Z?" Among those who have had experience with the new regulation, only 8% report that any regulatory expenses have been reduced or eliminated by the new regulation; 86% of those who have converted say that regulatory costs have not been reduced by the new regulation and 5% are not sure (Table 22).

According to the small number of firms that report savings from revised Regulation Z, the regulatory expenses that have been eliminated or reduced relate to the number of forms required and printing. Recall that labor, training, and related items are cited by the sample firms as some of the most costly aspects of Regulation Z. Forms and printing are considered the most costly aspects of Regulation Z by a relatively small percentage (13%-14%) of the mortgage banking firms (Table 10). Hence, the cost savings from revised Regulation Z, to date, seem to be in peripheral areas.

By contrast, 39% of those who have converted to revised Regulation Z report that they have incurred new expenses under revised Regulation Z (Table 23). The most commonly reported categories of new expenses are (Table 24): printing of new forms (30%); training of personnel (27%); computer programming (27%); and labor costs and new personnel (24%). The costs of new equipment and calculators is also reported by 19% of mortgage bankers who have had experience with revised Regulation Z.

TABLE 22

EFFECT OF REVISED REGULATION Z
ON REDUCING COSTS OF OLD REGULATION Z
BASE: USE REVISED REGULATION Z

Q.15a: Have any expenses that were incurred under the original Regulation Z been reduced or eliminated under the revised Regulation Z?

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	95	11	36	48
	%	%	%	%
YES, REDUCED OR ELIMINATED	8	9	11	6
NO, NOT REDUCED OR ELIMINATED	86	82	83	90
NOT SURE	5	9	6	4

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

TABLE 23

NEW COSTS INCURRED UNDER REVISED REGULATION Z
BASE: USE REVISED REGULATION Z

Q.14a: Have you incurred any new types of expenses under revised Regulation Z that you did not have under the original Regulation Z?

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	95	12	36	47
	%	%	%	%
YES, HAVE INCURRED	39	58	44	30
NO, HAVE NOT INCURRED	56	33	53	64
NOT SURE	5	8	3	6

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

TABLE 24

TYPES OF NEW COSTS UNDER REVISED REGULATION Z
BASE: HAVE INCURRED EXPENSES UNDER REVISED REGULATION Z

Q.14b: What are those new types of expenses?

	TOTAL	STRATUM I	STRATUM II	STRATUM III
BASE	37	7	16	14
	%	%	%	%
PRINTING COSTS, NEW FORMS HAVE TO BE PRINTED	30	14	38	29
COMPUTER COSTS, COMPUTER PROGRAMMING	27	29	31	21
LABOR COSTS, NEW PERSONNEL	24	14	31	21
TELEPHONE COSTS	5	14	6	-
LEGAL COSTS	11	-	12	14
EQUIPMENT, CALCULATORS	19	14	25	14
POSTAGE, MAILING OF T&L ITEMIZATION	5	-	6	7
TRAINING OF PERSONNEL	27	14	25	36
OTHER	11	14	-	21
NOT SURE	-	-	-	-

NOTE: BECAUSE OF THE SMALL SIZE OF DATA SUBSAMPLES, DIFFERENCES AMONG STRATA ARE NOT LIKELY TO EXCEED THE LIMITS OF SAMPLING ERROR.

The incidence of new expenses incurred under revised Regulation Z vary with firm size, from 30% of the smaller firms who have implemented it, to 44% of the midsize firms, to 58% of the largest firms.

It is possible that the savings from revised Regulation Z will become more evident as time goes on. However, at the present time the costs of conversion to the revised regulation seem more salient to the industry than do the hoped-for cost savings. The startup costs for converting to the new regulation are at least three-quarters of the annual expenses for Regulation Z in 1980. Therefore, in order to produce a net savings within a reasonable period of time, the annual savings in regulatory costs would have to be considerable.

The Impact of Transition on the Costs of Regulation Z

The survey findings indicate a marked increase between 1980 and 1981 in the cost of Regulation Z reported by mortgage banking companies. As noted earlier in this report, in 1980 the average cost of Regulation Z varied from \$0.23 to \$0.67 per thousand dollars in mortgage loans, depending on firm size. By contrast, in 1981 the average cost of Regulation Z varied by firm size from \$0.29 to \$0.89 per thousand dollars of mortgage loans (Table 7).

It was expected that conversion costs incurred in the transition to revised Regulation Z would increase somewhat the expenses attributed to Regulation Z in 1981. As noted earlier, only 2 companies report beginning conversion to revised Regulation Z in 1980, while approximately 86 report beginning the transition to the new regulation in 1981. Clearly, the cost of conversion to the new regulation represents some portion of the increase between 1980 and 1981 in the average cost of the regulation. However, it is important to determine how much of the observed increase in regulatory costs is attributable to conversion costs rather than the ongoing costs of original Regulation Z.

The impact of conversion to revised Regulation Z on the difference in regulatory costs between 1980 and 1981 can be assessed by comparing the costs of mortgage banking companies that have not begun converting to revised Regulation Z with the costs of those firms that have begun converting (Table 25). This comparison strongly suggests that all or virtually all of the increases in regulatory costs between 1980 and 1981 are attributable to the implementation of revised Regulation Z. In 1980, there was virtually no difference in the average expenses for Regulation Z per mortgage loan application between those mortgage banking companies that later converted to revised Regulation Z and those companies that did not. The average regulatory cost per mortgage loan application was $13.61 for firms that later converted to the new regulation compared with $13.91 for those firms that did not begin conversion. The regulatory cost per mortgage loan application declined slightly to $13.10 in 1981 for companies that did not convert to the new regulation. By contrast, the regulatory cost per mortgage loan application increased by approximately 45% to $19.72 for mortgage banking companies that began converting to revised Regulation Z.

These findings suggest that the ongoing costs of the original Regulation Z were relatively stable over time. The increased cost of Regulation Z between 1980 and 1981 appears to be a product of the conversion to the new regulatory procedures of revised Regulation Z.

TABLE 25

IMPACT OF CONVERSION TO REVISED REGULATION Z
ON REPORTED COSTS OF REGULATION Z

	BEGAN CONVERSION TO REGULATION Z	
	YES	NO
BASE	88	113
1980		
MORTGAGE LOAN APPLICATIONS	2,107	1,467
EXPENSES FOR REGULATION Z	$28,684	$20,401
COST PER APPLICATION	$13.61	$13.91
1981		
MORTGAGE LOAN APPLICATIONS	1,830	1,458
EXPENSES FOR REGULATION Z	$36,095	$19,098
COST PER APPLICATION	$19.72	$13.10

APPENDIX: THE QUESTIONNAIRE

LOUIS HARRIS AND ASSOCIATES, INC.
630 Fifth Avenue
New York, N.Y. 10111

FOR OFFICE USE ONLY:

Questionnaire No.: ______
5-6-7-8

Sample Point No.__________
10-11-12-13-14

Study No. 823005-Telephone
June 1982

OMB NO. 3084 - 0027
EXPIRES 09/30/82

Interviewer:______________________________ Date:______________

Questionnaire Mailed To:

Name:______________________________

Title:______________________________

Company:______________________________

Address:______________________________

Telephone:______________________________

Hello, I am ________________ calling from Louis Harris and Associates, the national public opinion research firm. Last week, we sent a letter to Mr. ________, concerning the national survey of mortgage bankers that we are conducting for the Federal Trade Commission. I would like to speak to him about scheduling a short telephone interview, unless he has designated someone else in the company to speak to us about the survey. (IF SOMEONE ELSE DESIGNATED:) Who is that?

Name: ______________________________

Title: ______________________________

Telephone:______________________________

Hello, I am __________ calling from Louis Harris and Associates, the national public opinion research firm. Recently, we sent you a letter concerning the national survey of mortgage bankers that we are conducting for the Federal Trade Commission. The purpose of the study is to develop the best possible estimate of the cost of compliance with the Truth-in-Lending Act/Regulation Z among the mortgage banking industry. This information has been requested by the Joint Economic Committee of the United States Congress in order to determine the cost of the regulation to firms like yours. Your identity and answers will be kept strictly confidential. Names of participants and their firms are destroyed as soon as we have completed the data collection. Your privacy in these matters is assured by the Harris firm.

First, we need some background information on your firm's mortgage loan volume in 1980 and 1981, for purposes of classification.

1. Approximately how many mortgage loan applications were taken in by your firm in 1981?

(WRITE IN NUMBER)

____
(20-24)

None........(25(____-1
Not sure.........____-2
Refused..........____-3

2. Approximately how many mortgage loans were made by your firm in 1981?

(WRITE IN NUMBER)

____
(26-30)

None........(31(____-1
Not sure.........____-2
Refused..........____-3

3. What was the aggregate dollar amount of mortage loans made by your firm in 1981?

(WRITE IN AMOUNT)
$______________
(32-36)

None........(37(____-1
Not sure.........____-2
Refused..........____-3

4. Approximately how many mortgage loan applications were taken in by your firm in 1980?

(WRITE IN NUMBER)

____
(38-42)

None........(43(____-1
Not sure.........____-2
Refused..........____-3

5. Approximately how many mortgage loans were made by your firm in 1980?

(WRITE IN NUMBER)

____
(44-48)

None........(49(____-1
Not sure.........____-2
Refused..........____-3

7. We would like to get your best estimate of the total expenses that your firm incurred in 1981 as a direct result of Regulation Z. We have grouped expenses in six general categories -- labor, administration, legal services, printing, equipment and supplies, and any other costs. Please exclude expenses that you would have incurred regardless of Regulation Z, such as costs associated with state Truth-in-Lending requirements, and other federal or state laws and regulations.

IF RESPONDENT CAN ONLY PROVIDE AN ESTIMATE OF TOTAL COSTS, SKIP TO Q.8c.
IF RESPONDENT CANNOT ESTIMATE THE COSTS OF REGULATION Z, SKIP TO Q.16a, P.10.

7a. What is your best estimate of your total labor costs incurred in 1981 as a direct result of Regulation Z? Labor costs might include a compliance officer's salary, staff time spent in preparing Truth-in-Lending statements, and salaries and wages for other Truth-in-Lending requirements.

$ ______
(10-15)
None.........(16(____ -1
Not sure........ ____ -2
Refused......... ____ -3

7b. What is your best estimate of other administrative expenses incurred by your firm in 1981 as a direct result of Regulation Z? These other administrative costs might include internal monitoring of compliance regulations, computer programming or reprogramming, training personnel in compliance requirements, and similar things.

$ ______
(17-22)
None.........(23(____ -1
Not sure........ ____ -2
Refused......... ____ -3

7c. What is your best estimate of legal services expenses incurred in 1981 as a direct result of Regulation Z? This might include fees paid to legal counsel to research Truth-in-Lending regulations, the cost of drafting compliance manuals, and costs related to Truth-in-Lending litigation and other legal services.

$ ______
(24-29)
None.........(30(____ -1
Not sure........ ____ -2
Refused......... ____ -3

7d. What is your best estimate of your expenses in 1981 for printing and developing forms and notices as a direct result of Regulation Z? This might include developing and printing Truth-in-Lending forms and development and printing of other compliance aids.

$ ______
(31-36)
None.........(37(____ -1
Not sure........ ____ -2
Refused......... ____ -3

17-775 O - 83 - 7

7e. What is your best estimate of your total expenses in 1981 for equipment and supplies as a direct result of Regulation Z? This might include the cost of calculators purchased in order to compute APR or TIL disclosures, storage facilities for TIL forms, and related equipment and supply costs.

$ ________________
(38-43)
None.........(44(_____-1
Not sure........ _____-2
Refused......... _____-3

7f. What is your best estimate of all other costs that you incurred in 1981 as a direct result of Regulation Z? This means anything that you have not already reported as labor, administrative, legal, printing, or equipment costs.

$ ________________
(45-50)
None.........(51(_____-1
Not sure........ _____-2
Refused......... _____-3

8a. Have you included overhead and fringe costs that you have incurred in 1981 as a direct result of Regulation Z in the expenses you reported above?

Yes .....(52(_______-1 (SKIP TO Q.8c)

No ...._______-2 (ASK Q.8b)

8b. What additional overhead and fringe costs would you estimate that you incurred in 1981 as a direct result of Regulation Z?

$ ________________
(53-58)
None.........(59(_____-1
Not sure........ _____-2
Refused......... _____-3

8c. In summary, then, what would you estimate were the total expenses of your company in 1981 as a direct result of Regulation Z?

TOTAL 1981 COSTS
$ ________________
(60-65)
None.........(66(_____-1
Not sure........ _____-2
Refused......... _____-3

|67-80Z|

9. Now we would like to get your best estimate of the total expenses that your firm incurred in 1980 as a direct result of Regulation Z. Again, we have grouped expenses in six general categories -- labor, administration, legal services, printing, equipment and supplies, and any other costs. Please exclude expenses that you would have incurred regardless of Regulation Z, such as costs associated with state Truth-in-Lending requirements, and other federal or state laws and regulations.

IF RESPONDENT CAN ONLY PROVIDE AN ESTIMATE OF TOTAL COSTS, SKIP TO Q.10c.
IF RESPONDENT CANNOT ESTIMATE THE COSTS OF REGULATION Z, SKIP TO Q.16a, P.10.

9a. What is your best estimate of your total labor costs incurred in 1980 as a direct result of Regulation Z? Labor costs might include a compliance officer's salary, staff time spent in preparing Truth-in-Lending statements, and salaries and wages for other Truth-in-Lending requirements.

$ ______
(10-15)
None.........(16(____ -1
Not sure........ ____ -2
Refused......... ____ -3

9b. What is your best estimate of other administrative expenses incurred by your firm in 1980 as a direct result of Regulation Z? These other administrative costs might include internal monitoring of compliance regulations, computer programming or reprogramming, training personnel in compliance requirements, and similar things.

$ ______
(17-22)
None.........(23(____ -1
Not sure........ ____ -2
Refused......... ____ -3

9c. What is your best estimate of legal services expenses incurred in 1980 as a direct result of Regulation Z? This might include fees paid to legal counsel to research Truth-in-Lending regulations, the cost of drafting compliance manuals, and costs related to Truth-in-Lending litigation and other legal services.

$ ______
(24-29)
None.........(30(____ -1
Not sure........ ____ -2
Refused......... ____ -3

9d. What is your best estimate of your expenses in 1980 for printing and developing forms and notices as a direct result of Regulation Z? This might include developing and printing Truth-in-Lending forms and development and printing of other compliance aids.

$ ______
(31-36)
None.........(37(____ -1
Not sure........ ____ -2
Refused......... ____ -3

9e. What is your best estimate of your total expenses in 1980 for equipment and supplies as a direct result of Regulation Z? This might include the cost of calculators purchased in order to compute APR or TIL disclosures, storage facilities for TIL forms, and related equipment and supply costs.

$______
(38-43)
None.........(44(____-1
Not sure........ ____-2
Refused......... ____-3

9f. What is your best estimate of all other costs that you incurred in 1980 as a direct result of Regulation Z? This means anything that you have not already reported as labor, administrative, legal, printing, or equipment costs.

$______
(45-50)
None.........(51(____-1
Not sure........ ____-2
Refused......... ____-3

10a. Have you included overhead and fringe costs that you have incurred in 1980 as a direct result of Regulation Z in the expenses you reported above?

Yes .....(52(______-1 (SKIP TO Q.10c)

No ....______-2 (ASK Q.10b)

10b. What additional overhead and fringe costs would you estimate that you incurred in 1980 as a direct result of Regulation Z?

$______
(53-58)
None.........(59(____-1
Not sure........ ____-2
Refused......... ____-3

10c. In summary, then, what would you estimate were the total expenses of your company in 1980 as a direct result of Regulation Z?

TOTAL 1980 COSTS
$______
(60-65)
None.........(66(____-1
Not sure........ ____-2
Refused......... ____-3

11a. At the present time, on what proportion of your transactions are you using revised Regulation Z? Your best estimate is fine.

______ percent (ASK Q.11b)
(67-69)

None.........(70(____-1
Not sure.........____-2 } (SKIP TO Q.16a, P.10)

11b. When did you begin converting from the original Regulation Z to revised Regulation Z?

MONTH (71-72) YEAR (73-74)

Not sure...(75(____-1

|76-80Z|

12. I would like your best estimate of the costs that your firm has incurred to date in converting to revised Regulation Z. Once again, let me ask you for each of the six general expense categories.

[IF RESPONDENT CAN ONLY PROVIDE ESTIMATE OF TOTAL COSTS, SKIP TO Q.12h.]

	[WRITE IN AMOUNT]	None	Not sure
12a. What have been your total labor costs incurred in the transition?	$_____ (10-15)	(16(___-1	___-2
12b. What have been your other administrative costs incurred in the transition?	$_____ (17-22)	(23(___-1	___-2
12c. What have been your legal services costs incurred in the transition?	$_____ (24-29)	(30(___-1	___-2
12d. What have been your printing and development costs incurred in the transition?	$_____ (31-36)	(37(___-1	___-2
12e. What have been your equipment and supply costs incurred in the transition?	$_____ (38-43)	(44(___-1	___-2
12f. What other costs, such as the destruction of old forms, have you incurred as a result of the transition?	$_____ (45-50)	(51(___-1	___-2
12g. What additional overhead and fringe costs, if any, have you incurred as a result of the transition?	$_____ (52-57)	(58(___-1	___-2
12h. In summary, then, what would you estimate as the total costs to your company, to date, of converting to revised Regulation Z?	$_____ (59-64)	(65(___-1	___-2

13. What would you estimate was the approximate number of work hours required for your firm to convert to revised Regulation Z?

_______ Hours
(66-69)

None.........(70(_____-1
Not sure........._____-2

14a. Have you incurred any new types of expenses under revised Regulation Z that you did not have under the original Regulation Z?

Yes, have incurred....(71(_______-1 (ASK Q.14b)

No, have not incurred....._______-2 } (SKIP TO Q.15a)
Not sure..................._______-3 }

14b. What are those new types of expenses?

_______________________________________ (72(_______
_______________________________________ (73(_______
_______________________________________ (74(_______
_______________________________________ (75(_______

15a. Have any expenses that were incurred under the original Regulation Z been reduced or eliminated under the revised Regulation Z?

Yes, reduced or eliminated....(76(_______-1 (ASK Q.15b)

No, not reduced or eliminated....._______-2 } (SKIP TO Q.16a)
Not sure..........................._______-3 }

15b. What are those expenses that have been eliminated or reduced?

_______________________________________ (77(_______
_______________________________________ (78(_______
_______________________________________ (79(_______
_______________________________________ (80(_______

ASK EVERYONE

16a. If Regulation Z were eliminated, would you keep the present disclosure of annual percentage rate basically the same, modify it substantially, or drop it altogether?

Keep the same............(10(____-1
Modify substantially.........____-2
Drop altogether..............____-3
Not sure.....................____-4

16b. If Regulation Z were eliminated, would you keep the present disclosure of finance charge basically the same, modify it substantially, or drop it altogether?

Keep the same............(11(____-1
Modify substantially.........____-2
Drop altogether..............____-3
Not sure.....................____-4

16c. If Regulation Z were eliminated, would you keep the present disclosure of payment schedule basically the same, modify it substantially, or drop it altogether?

Keep the same............(12(____-1
Modify substantially.........____-2
Drop altogether..............____-3
Not sure.....................____-4

16d. If Regulation Z were eliminated, would you keep the present disclosure of total of payments basically the same, modify it substantially, or drop it altogether?

Keep the same............(13(____-1
Modify substantially.........____-2
Drop altogether..............____-3
Not sure.....................____-4

16e. If Regulation Z were eliminated, would you keep the present disclosure of amount financed basically the same, modify it substantially, or drop it altogether?

Keep the same............(14(____-1
Modify substantially.........____-2
Drop altogether..............____-3
Not sure.....................____-4

16f. If Regulation Z were eliminated, would you keep the present disclosure of early estimate basically the same, modify it substantially, or drop it altogether?

Keep the same............(15(____-1
Modify substantially.........____-2
Drop altogether..............____-3
Not sure.....................____-4

16g. If Regulation Z were eliminated, would you keep the present disclosure of right of recision basically the same, modify it substantially, or drop it altogether?

Keep the same............(16(____-1
Modify substantially.........____-2
Drop altogether..............____-3
Not sure.....................____-4

17. Which aspects or provisions of Regulation Z have been most costly to your institution? Please explain. [DO NOT READ LIST -- MULTIPLE RECORD]

1. None.....................................(17(____ -1
2. Form changes required too often.............. ____ -2
3. Disclosure statement requirements............ ____ -3
4. Computation of annual percentage rate (APR) and other finance charges............ ____ -4
5. Explaining annual percentage rate (APR) and other disclosures to consumer.......... ____ -5
6. Legal advice............................... ____ -6
7. Printing costs............................. ____ -7
8. Recordkeeping.............................. ____ -8
9. Auditing/compliance monitoring............. ____ -9
10. Civil liabilities (cost of lawsuits)......... ____ -0
11. Training of personnel...................(18(____ -1

Other (SPECIFY)

____

____

______________________.................. ____ -2

Not sure.. ____ -3

18. Which aspects or provisions of Regulation Z, in your opinion, provide mortgage lenders with benefits that they would otherwise not receive? Please explain.

____ (19(____

____ (20(____

____ (21(____

None................(22(____ -1

19. Which aspects or provisions of Regulation Z, in your opinion, provide consumers with benefits that they would otherwise not receive? Please explain.
DO NOT READ LIST -- MULTIPLE RECORD

1. None.......................................(23(____-1
2. Discloses actual cost of credit....................____-2
3. Permits comparison of cost of credit and/or APR between lenders....................____-3
4. Standardizes policies and procedures.............____-4
5. Requires full disclosure prior to consummation....____-5
6. Right of recision..............................____-6
7. Disclosure forms...............................____-7

Other (SPECIFY)

____

____

______________________________.................____-8

Not sure..____-9

20. Has Regulation Z helped your institution by requiring other lenders to disclose their charges for credit in a uniform fashion?

Yes, has helped.......(24(____-1
No, has not helped.......____-2
Not sure.................____-3

21. As we explained in our letter, we are trying to develop a precise estimate of the cost of Regulation Z to mortgage banking firms. Consequently, we asked you to fill out a supplementary cost report, if you had already developed the types of cost information we need.

Were you able to fill out the supplementary cost estimate worksheet?

Yes..........(25(____-1 (ASK Q.22a)

No..............____-2 (THANK RESPONDENT AND TERMINATE)

22a. Let me read down the list of the expense categories for 1981 and you tell me your best estimate of the costs to your firm of compliance with Regulation Z in each area. [READ CATEGORIES UNDER HEADS A-F AND RECORD UNDER "1981."]

22b. Now, I am going to read the same categories for the costs of compliance with Regulation Z in 1980. [REREAD CATEGORIES AND RECORD UNDER "1980."]

A. Labor Costs	1981	1980
1. Costs related to computation and preparation of Truth-in-Lending statements................	$______ (26-30)	$______ (31-35)
2. Compliance officer(s) salary and overhead expenses....................................	$______ (36-40)	$______ (41-45)
3. Other labor costs (SPECIFY) ______________________________ ______________________________............	$______ (46-50)	$______ (51-55)
TOTAL LABOR COSTS.........	$______ (56-61)	$______ (62-67)

[68-80Z]

B. Administrative Expenses		
1. Internal monitoring of compliance regulations.	$______ (10-14)	$______ (15-19)
2. Computer programming and reprogramming........	$______ (20-24)	$______ (25-29)
3. Training personnel in compliance requirements.	$______ (30-34)	$______ (35-39)
4. Other administration costs (SPECIFY) ______________________________ ______________________________............	$______ (40-44)	$______ (45-49)
TOTAL ADMINISTRATION COSTS........	$______ (50-55)	$______ (56-61)

[62-80Z]

(CONTINUED)

(Q.22a,b -- CONTINUED)

C. Legal Services Expenses

	1981	1980
1. Fees paid to legal counsel for study and research of Truth-in-Lending regulations, drafting comments to FRB staff, drafting compliance manuals for lender's employees.....$	(10-14)	$ (15-19)
2. Costs related to Truth-in-Lending litigation, including legal fees, fines, and settlement costs.....................................$	(20-24)	$ (25-29)
3. Legal fees to assure compliance with Truth-in-Lending advertising regulations...............$	(30-34)	$ (35-39)
4. Other legal services costs (SPECIFY) ____________ ____________............$	(40-44)	$ (45-49)
TOTAL LEGAL SERVICES COSTS..........$	(50-55)	$ (56-61)

[62-80Z]

D. Expenses for Printing and Developing of Forms and Notices

1. Development of Truth-in-Lending Forms.........$	(10-14)	$ (15-19)
2. Printing Truth-in-Lending forms...............$	(20-24)	$ (25-29)
3. Development of other compliance aids..........$	(30-34)	$ (35-39)
3. Other printing and development costs (SPECIFY) ____________ ____________............$	(40-44)	$ (45-49)
TOTAL PRINTING AND DEVELOPMENT COSTS.......$	(50-55)	$ (56-61)

[62-80Z]

(CONTINUED)

(Q.22a,b -- CONTINUED)

	1981	1980
E. Expenses for Equipment and Supplies		
1. Costs of calculators or calculation devices purchased in order to compute annual percentage rate and other Truth-in-Lending disclosures......................	$ ____ (10-14)	$ ____ (15-19)
2. Storage of Truth-in-Lending disclosure and related forms..........................	$ ____ (20-24)	$ ____ (25-29)
3. Other equipment and supplies costs (SPECIFY) ____________ ____________............	$ ____ (30-34)	$ ____ (35-39)
TOTAL EQUIPMENT AND SUPPLIES COSTS.........	$ ____ (40-45)	$ ____ (46-51)
F. All Other Costs (SPECIFY) ____________ ____________		
TOTAL ALL OTHER COSTS..................	$ ____ (52-57)	$ ____ (58-63)
G. Total Expenses For Regulation Z....................	$ ____ (64-69)	$ ____ (70-75)

[76-80Z]

[INTERVIEWER: AFTER COMPLETING LIST FOR Q.22a, GO BACK AND ASK Q.22b.]

Thank you for your cooperation.

O