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How Mere Presence and Mandatory Waiting Periods Affect Consumer Decisions with Disclosures

Executive Summary

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In Q4 of 2017, two researchers[1] at the Office of Research of the Consumer Financial Protection Bureau (CFPB) presented their research on three studies they conducted that examined the effects of *mere presence*[2] and *mandatory waiting periods*[3] on consumer decisions regarding disclosure. Their findings show that both variables have significant effects on how people handle and respond to disclosures. Specifically, the *mere presence* of an observer while an individual is reading a disclosure can impede their ability to make informed decisions, while *mandatory waiting periods* have a positive effect on consumers' ability to make informed decisions. Here the Institute summarizes this research.

Background

Prior research offers little in the way of field testing real world factors that may affect disclosure use. That is what sets this research apart. Drawing from over a century's worth of research in social psychology, Chin and Beckett predict that *mere presence* will lead to significant impairment in an individual's ability to respond adequately to a disclosure, which is a relatively complex and difficult task. Furthermore, Chin and Beckett predict that *mandatory waiting periods* will increase the likelihood of a consumer thoroughly reading a disclosure and making an informed decision thereafter.

Studies

Study 1**:** The Combined Effects of Mere Presence and Mandatory Waiting Periods Research Design

Chin and Beckett "provided disclosures to 192 students from a private, liberal arts college who had just completed an unrelated 90-minute economics experiment…Half were randomly assigned to receive the disclosure at the end of the preceding experiment while sitting alone," and were forced to wait until they were called to a payment window in a separate room to return the disclosure. The other half of participants received the disclosure when they were called to a payment window in a separate room, and "interacted with the disclosure form in the presence of the experimenter." These participants could

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[1] The two researchers are Alycia Chin and Dustin H. Beckett. Their presentation, given at https://www.rand.org/events/2017/10/24.html, reflects independent research and does not necessarily reflect the views of the CFPB or the United States. The paper summarizing their research is still under review and has yet to be published.

[2] *Mere presence* (of an observer) is defined as external observation or social influence by a third party.

[3] *Mandatory waiting periods* are defined as "an externally-imposed delay between the time a consumer receives a disclosure and the time the consumer may act upon it."

return the disclosure at any time after signing it. In every case, the disclosure “contained a paragraph instructing participants to initial the disclosure if they were interested in being contacted about participation in future research studies that paid approx. $35 per hour.” Since the participants had just completed a $19 per hour experiment, an informed decision was defined as the participant initialing it.

Results: “**35.2%** of participants who received the disclosure alone and were required to wait at their workstation initialed it, while only **4.8%** who received the disclosure at the payment window did so… [T]he odds that a participant initialed the disclosure were **≈ 11x higher** among those who received the disclosure in relative isolation and with a mandatory waiting period.”

<u>Study 2</u>: Separating the Effects of Mere Presence and Mandatory Waiting Periods

This study provided disclosures to 216 students in a similar manner to Study 1. The difference: “All participants received their disclosure from an experimenter when they were called to a payment window in a separate room.” In some experiments, the experimenter remained present while the participant interacted with the disclosure. In those experiments, a second experimenter replaced the first while the participant viewed the disclosure form, either immediately or 60 seconds after he or she received it.

Results: “**33%** of participants initialed the disclosure in the 60 second, [experimenter-absent] condition; **13%** initialed in the 60 second [experimenter-present] condition; and [only] **3%** initialed in the 0 second, [experimenter-present] condition… Conditional on having a mandatory waiting period of 60 seconds, **removing an observer made the odds of initialing 3.5 times more likely**.”

<u>Study 3</u>: Informed Decision-Making and Mortgage Closing Disclosures

This study sought to analyze “whether receiving mortgage disclosures under different circumstances was associated with different levels of informed decision making.” Data includes 3,124 recent homebuyers. All mortgage borrowers should have received a mortgage disclosure at least three days before the mortgage closing meeting. “The survey asked participants to report when they received their mortgage disclosures” (to get an understanding for whether they were aware of or took advantage of the three-day advance notice). “The survey asked respondents whether they had questions about their mortgage disclosures, and if so, whether they sought answers to those questions.” Participants were considered to have made a “less informed decision” if they had questions *and* did not seek answers to those questions.

Results: “**6.4%** of participants reported receiving their mortgage disclosures at closing, and **35%** reported having questions about their disclosures…The odds of having questions were **2.4x higher for participants who received disclosures before the closing meeting**…The odds of not asking questions were **30.8x higher for consumers who received their disclosures at the closing versus beforehand**.”

Conclusion

The implications of this research are clear and actionable. Because the *mere presence* of an external observer, either by authority figures or social peers, significantly reduce the chances of a consumer making an informed decision, such scenarios should be avoided. Similarly, the beneficial effect of advanced notice and *mandatory waiting periods* on consumers’ reading and considering disclosures warrant their implementation in the disclosure process.