

Not a Mortgage Expert

- Have done no research on mortgage decisions
- “Consumer psychologist” / “behavioral economist” studying consumer information processing
 - Study biases in memory, attention, perception below awareness
 - Key themes are how choices are determined by influencing
 - Consideration set – which alternatives out of hundreds are actively considered
 - Selective activation of criteria for evaluating considered options
 - Also study how information changes markets & consumer welfare in work on effects of internet shopping. Effects driven by changing consideration sets & comparisons among considered alternatives
- Recent work on “intertemporal choice” – preference for smaller sooner over larger later rewards & larger later over smaller sooner costs
 - e.g., “discounting” of some future resource a function of (mis)perception of how important the costs of that resource now vs. in the

Mortgage & Retirement Policy

ContrastseW nq/60 gst20

What's Different?

- In retirement savings, key mistakes are errors of omission (fail to choose & procrastinate)
 - Hence, make it simple to act
- In mortgage decisions, key mistakes are errors of commission
 - choose wrong loan or more house than one can afford given shocks
- In retirement, employers play key role as benevolent agent steering employees choices
- For mortgages, no benevolent agent, lots of self-interest for sellers to exploit consumers' information overload

Consideration Sets, Screening & Comparison

- For a mortgage option to be chosen
 - It has to be considered
 - Buyer must not consider better liked option
 - Choice outcomes far more influenced by content of consideration set than by processing of considered alternatives
- Can FTC or HUD affect enhance competition & welfare by affecting consideration stage – e.g., personalized screening agent website for

