



The Federal Trade Commission

Opening Remarks of Michael R. Baye Director of the Bureau of Economics

Consumer Information and the Mortgage Market Conference May 29, 2008

Good morning. I'm Michael Baye, the Director of the Bureau of Economics here at the Federal Trade Commission.¹ It is my pleasure to welcome you all to the FTC, and to kick off what promises to be intellectually stimulating day.

Today's economic workshop on information regulation, mortgage choice and mortgage outcomes could not be more timely or important. As you all know, the news is full of reports about how turmoil in housing and mortgage markets affects the financial security and welfare of many hard-working families. The effects can also be felt in our neighborhoods, where vacancies due to foreclosure have increased, and in the overall economy. Earlier this month, *The Wall Street Journal* reported that foreclosure filings for April were up 65% from a year earlier, and that about 2 percent of households nationwide are in foreclosure.² Almost daily, there are increased calls for our government

¹ The remarks that follow are my own, and do not necessary reflect the views of the Federal Trade Commission or any of the individual Commissioners. I am grateful to Liz Callison, Jan Pappalardo, Jim Lacko and Paul Pautler for helpful discussions.

² "April Foreclosures Hit New High" *Wall Street Journal* (May 14, 2008).

to help consumers and other stakeholders. Multiple pieces of proposed legislation have been introduced in Congress and state legislatures in an attempt to ease the crisis.

Economically sound solutions to these problems require an understanding of why current consumer protection policies may have failed, as well as an assessment of the likely long-run effects of alternative proposed policies on consumer choice and competition in mortgage markets. While there are many ramifications and angles from which to view mortgage markets, this economic conference focuses on how consumer information impacts the functioning of these markets. A variety of distinguished scholars will share their research on how consumer information—and the regulation of such information—effects consumer choices, mortgage outcomes, and consumer welfare. By bringing together distinguished panelists with expertise in real estate economics, mortgage markets, information regulation, as well as marketing and consumer behavior—and through a free and open discussion of the relevant economic issues—I know we will learn a great deal. It is my hope that the fruits of this workshop will be useful to policymakers in their quest to enhance the welfare of consumers.

The Federal Trade Commission's twin missions—consumer protection and competition (or antitrust)—uniquely position staff in the Agency's Bureau of Economics to contribute to today's discussion. It is well-documented in the economics literature that consumer access to accurate information is

Our first session this morning will focus on recent developments in mortgage market products, and provide us with a better understanding of how mortgage products and mortgage markets have evolved. Over the past decade, changes in this market include the rise and prominence of mortgage products like hybrid ARMs, payment option ARMs, interest-only loans, no down payment loans, piggyback loans, no documentation loans, and other loan products of that are the subject of controversy today. Some suggest that this evolution represents an attempt to expand mortgage markets to include previously under-served groups of consumers, thus broadening access to the American dream of home ownership; others suggest it was a scheme by unscrupulous lenders to prey on unsuspecting consumers; and still others that it was a response to secondary market investors pursuing higher rates of return. Similarly, some explain the increased

uncertainty influences consumers' choices over loan products and lenders' decisions of what products to offer and at what price; whether consumers understand the terms of their own mortgage transactions; whether current information policy can be improved; and the role of advertising in the mortgage market. In addition, panelists will share views on what the economics of information tells us about the role of information on market outcomes, the likely effects of regulations on mortgage information, and the lessons that behavioral economics research may provide fo

I'll now turn this over to Paul Pautler, the Deputy Director of Consumer Protection in the Bureau of Economics, who is the moderator of the first panel. Thank you all for being here, and enjoy your day at the FTC.