Promise and Pitfalls of Transparency: Insights for the Mortgage Market Crisis

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Federal Trade Commission:
Consumer Information and the Mortgage Market
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Nutritional Labeling

KRISPY KRUNCHIES

Nutrition Facts

Serving Size 1 package
Servings Per Container 1

Amount Per Serving

Calories 80	Calories from Fat 35
	% Daily Value*
Total Fat 4g	6%
Saturated Fat 0.5g	3%
Cholesterol 0mg	0%
Sodium 110mg	5%
Total Carbohydrate 10g	3%
Dietary Fiber 1g	
Sugars 1g	
Protein 1g	

Vitamin A 0%	Vitamin C 0%
Calcium 2%	Iron 0%

*Percent Daily Values are based on a 2,000 calorie diet. Your dailyvalues may be higher or lower depending on your calorie needs:

	Calories	2,000	2,500
Total Fat	Less than	65g	80g
Sat Fat	Less than	20g	25g
Cholesterol	Less than	300mg	300mg
Sodium	Less than	2,400 mg	2,400 mg
Total Carbohydrate		300g	375g
Dietary Fiber		25g	30g

Calories per gram:
Fat 9 Carbohydrate 4

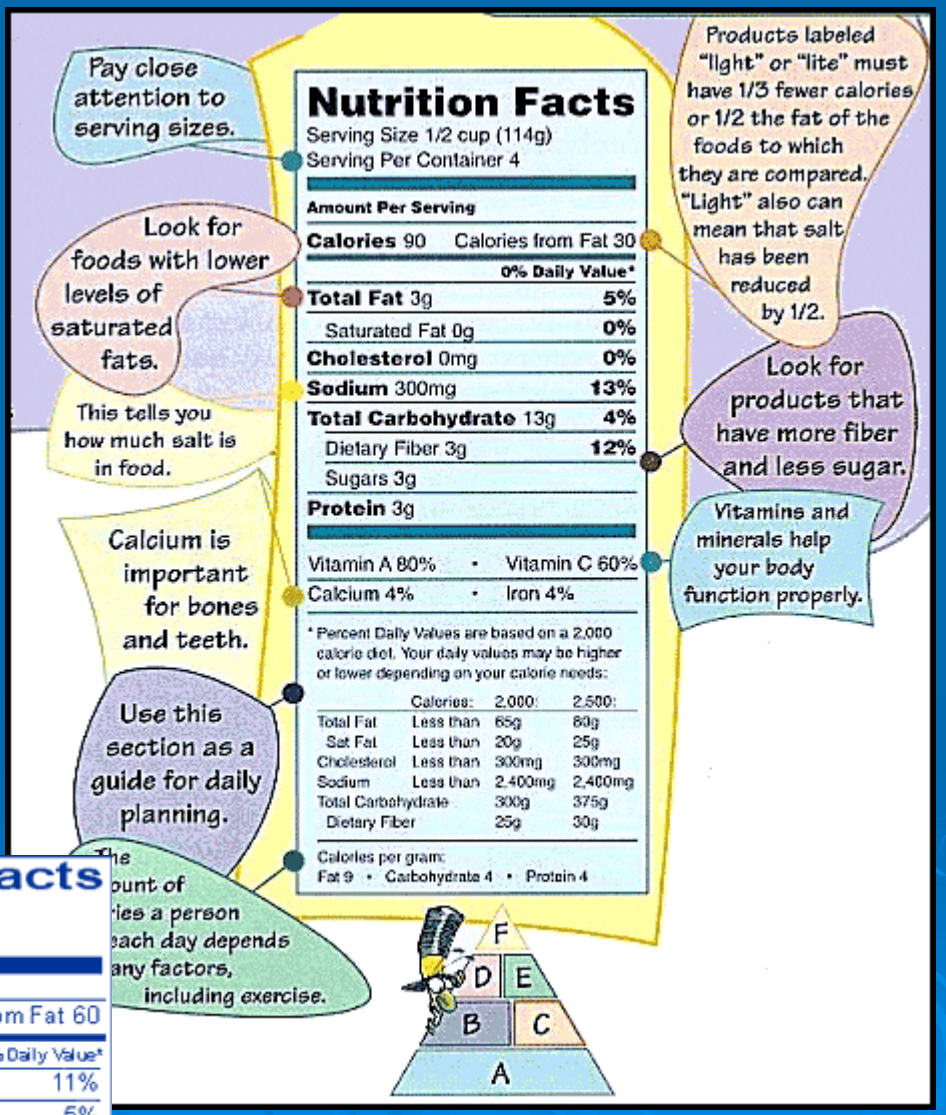
INGREDIENTS: CORN, VEGETABLE OIL, (or more of the following: CANOLA, SUNFLOWER, SOYBEAN) OIL, CHEESES ROMANO FROM COW'S MILK), SALT, BU GARLIC POWDER, DEXTROSE, SUGAR

Nutrition Facts

Serving Size 1 Tbsp (14g)
Servings Per Container 32

Amount Per Serving

Calories 60	Calories from Fat 60
	% Daily Value*
Total Fat 7g	11%
Saturated Fat 1g	5%
Trans Fat 0.5g	
Cholesterol 0mg	0%



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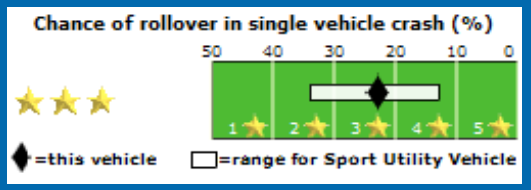
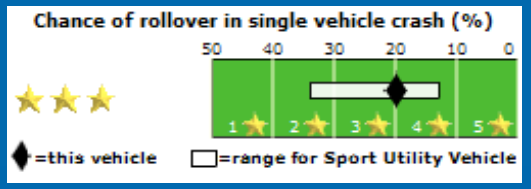
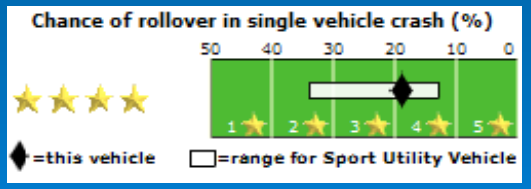
Model Year 2007 Rollover Ratings (SUVs)

http://www.safercar.gov/Index2.cfm

Vehicle	Rollover Rating	Rollover Chance
2007 Cadillac Escalade ESV 4-DR. w/SAB (SUV)		23%
2007 Chevrolet Trailblazer 4-DR. (SUV)		20%
2007 Ford Explorer Sport Trac 4-DR. w/SAB (SUV)		19%

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Homeland Security Advisory System

http://www.dhs.gov/dhspublic/display?theme=29

Current Threat Level
May 27, 2008 — The United States government's national threat level is **Elevated**, or **Yellow**.

The U.S. threat level is **High**, or **Orange**, for all domestic and international flights. Only small amounts of liquids, aerosols and gels are allowed in carry-on baggage.

Recommended Activities
All Americans should continue to be vigilant, take notice of their surroundings, and report suspicious items or activities to local authorities immediately.

Everyone should establish an emergency preparedness kit and emergency plan for themselves and their family, and stay informed about what to do during an emergency

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Los Angeles County Restaurant Hygiene Grades

***Source*: Photos of restaurant hygiene cards, Fairfax area, Los Angeles, CA. November 2005.**

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Drinking water contaminant report

City of Cambridge Water Department
2005 Annual Drinking Water Quality Report

250 Fresh Pond Parkway
Cambridge, MA 02138

DEP PWS ID#3049000

June 2006

24 Hour Emergency/Customer Service
Phone Number 1-617-349-4770

"This report is a snapshot of drinking water quality that we provided in 2005, last year. Included are details about where your water comes from, what it contains, and how it compares to state and federal drinking water standards. We are pleased to be providing this report and encourage you to use the contact information if you have questions or need further information about your water system." Sam Corda, Managing Director, Cambridge Water Department (CWD)

Cambridge Water Department - Consumer Confidence Report 2005 Data

Lead and Copper	Units	90% Value	Range	Action Level(AL)90%	MCLG	Violation	Sites exceeding AL	
Copper	ppm	0.035	0.001-1.09	1.3	0	NO	0 of 60	Corrosion of household plumbing.
Lead	ppb	7	0 - 157	15	0	NO	2 of 60	Corrosion of household plumbing.
Regulated- Inorganic Contaminants		Highest	Range	MCL	MCLG	Violation		
Barium	ppm	0.047	0.035-0.047	2	2	NO		Erosion of natural deposits.
Fluoride	ppm	1.3	0-1.3	4	4	NO		Water additive to promote strong teeth.
Nitrate as Nitrogen	ppm	0.74	0.29-0.74	10	10	NO		Runoff from fertilizer use.
Nitrite as Nitrogen	ppm	0.015	0-0.015	1	1	NO		Runoff from fertilizer use.
Unregulated - Inorganic Contaminants		Average	Range					
Sulfate	ppm	25	23-27					Erosion of natural deposits.
Sodium	ppm	70	60-92					road salt.
Unregulated - Organic Contaminants		Average	Range					
Bromodichloromethane	ppb	2.8	1.6-4.6					By-product of drinking water chlorination.
Bromoform	ppb	1.8	0.9-3.4					By-product of drinking water chlorination.
Chloroform	ppb	1.4	0.7-3.0					By-product of drinking water chlorination.
Dibromodichloromethane	ppb	3.9	2.3-6.3					By-product of drinking water chlorination.
Regulated -Volitale Organic Contaminants		Highest Ave	Range	MCL	MCLG	Violation		
Total Trihalomethanes(THMs)	ppb	10.3	4.8-18	80	0	NO		By-product of drinking water chlorination.
Haloacetic Acids(HAA5)	ppb	8.7	3.5-20	60	0	NO		By-product of drinking water chlorination.
		Highest Ave	Range	MRDL	MRDLG	Violation		
Chlorine as Chloramine	ppm	3	1.3 - 3.0	4	4	NO		Water additive used to control microbes.
Regulated - Radioactive Contaminants (2002)						Violation		
Gross Alpha Activity	pCi/L	0.3	n/a	15	0	NO		Erosion of natural deposits.
Gross Beta Activity	pCi/L	14	n/a	AL = 50	0	NO		Decay of naturally occurring deposits.
Turbidity	TT	Lowest Monthly %		Highest Daily Value		Violation		
Daily Compliance(NTU)	1			0.16		NO		Suspended matter from soil runoff.
Monthly Compliance	At least 95%	100				NO		Suspended matter from soil runoff.
Bacteria	Highest % Positive in a Month			Total # positive	MCL	Violation	MCLG	
Total Coliform	1%(April)			1	>5%	NO	0	Naturally occurring in the enviroment.

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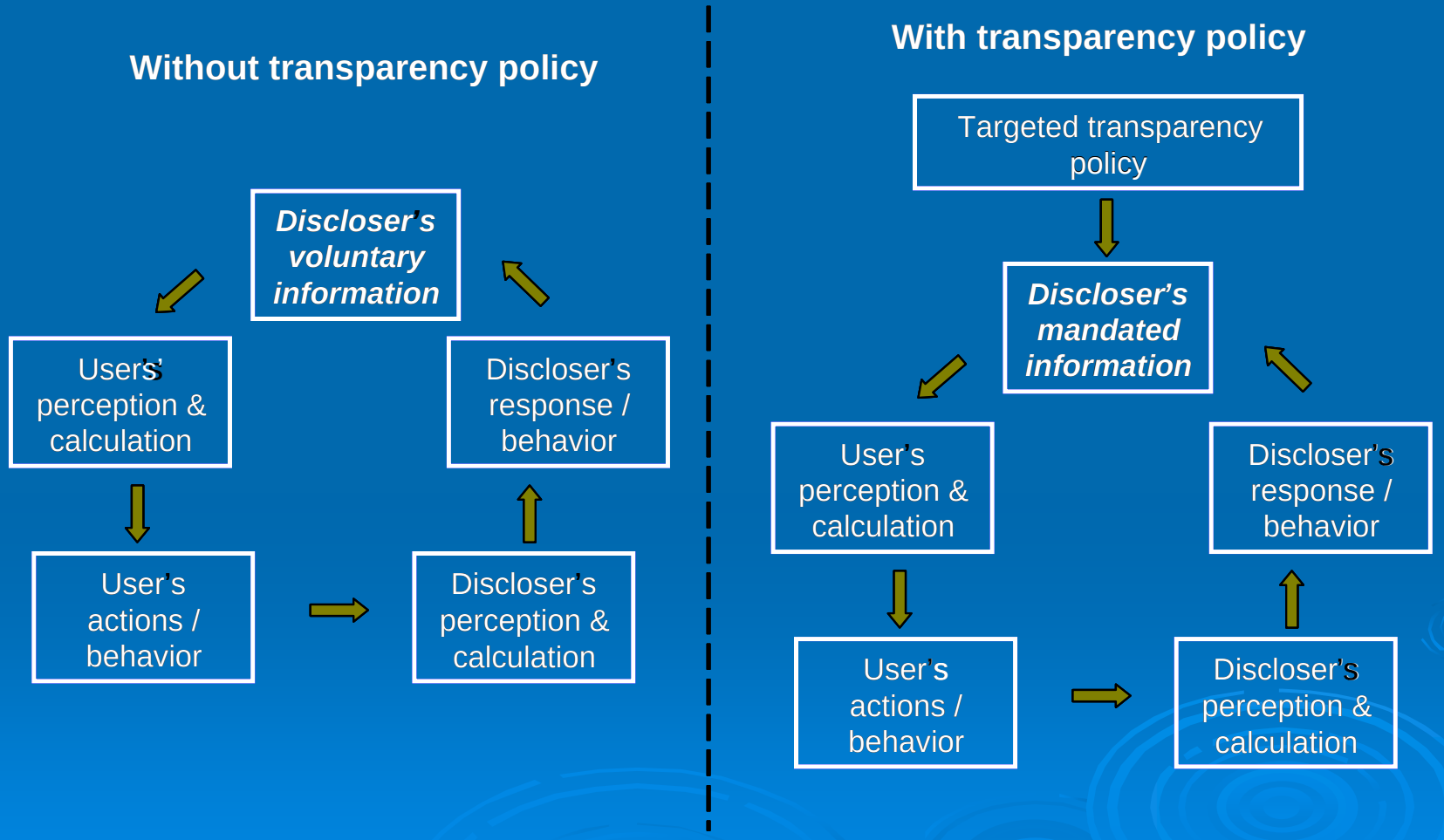
Transparency Effectiveness: Action Cycle



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Transparency effectiveness

- Characteristics of Embedded Information
  - Valuable
  - Comprehensible
  - Compatible
- Obstacles to Effectiveness
  - Goal Incongruence
  - Gaming
  - Misperception

Evaluation of effectiveness of selected policies

Disclosure System	Embeddedness in Users' Decisions	Embeddedness in Disclosers' Decisions	Evaluation of trans-parency system effectiveness
Restaurant Hygiene Quality Cards	*High*	*High*	*Highly effective*
Drinking Water Disclosure	*Low*	*Low*	*Ineffective*
Home Mortgage Disclosure	• *When do borrowers receive information?* • *Who provides it?* • *How well do they understand it?*	• *Whose behavior are we trying to change?* • *Is that best affected via changing borrower behavior?*	*?*

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Perils of transparency for home mortgage policy

- User embeddedness and the role of third parties in mortgage disclosure:
  - "The mortgage broker does not represent the borrower. We sell access to money." -- Chris Holbert, president of the Colorado Mortgage Lenders Association.

- Cognitive errors and the ability to understand risk.

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Prospects of transparency for home mortgage policy

Ability of borrowers to understand:

- *Costs*:
  - FTC study “Improving Consumer Mortgage Disclosures”

- *Risks*:
  - Lessons from rollover standards and SUV safety

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Likelihood of a mortgage rollover?

	Individual Credit History		
	Excellent Credit History	Average Credit History	Poor Credit History
Fixed rate, 30 year mortgage	★★★★	★★★	★★
Variable rate, 30 year mortgage	★★★★	★★★	★
Subprime mortgage	★★★	★★	★

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When Is Disclosure Appropriate?

- Consensus metrics
- Communication is practical
- Users have will and capacity to improve choices
- Disclosers have capacity to improve performance
- Variable results are acceptable

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