



Financial Education versus Costly Counseling: How to Dissuade Borrowers from Choosing Risky Mortgages?

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Abstract

This paper explores the effects of mandatory third-party review of mortgage contracts on consumer choice. The study is based on a legislative pilot carried out in Illinois in 2006, under which mortgage counseling was triggered by applicant credit scores or by their choice of "risky mortgages." Low-credit score applicants for whom counselor review was mandatory did not materially alter their contract choice. Conversely, higher credit score applicants who could avoid counseling by choosing nonrisky

mortgages did so, decreasing their propensity for high-risk contracts between 10 and

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D14 Household Saving; Personal Finance

D18 Consumer Protection

G21 Banks; Depository Institutions; Micro Finance Institutions; Mortgages

R21 Urban, Rural, Regional, Real Estate, and Transportation Economics: Housing Demand

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