

Law School Notes

What are borrowers thinking?

By Bethany Krajelis
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Thanks to a \$250,000 award from the National Science Foundation, a real estate professor at The John Marshall Law School will spend the next three years trying to figure out what borrowers are thinking when they sign home loan agreements.

Debra Pogrund Stark is pairing up with Jessica Choplin, a psychology professor at DePaul University, to take a closer look at the loan process that has become the subject of state and federal legislation since the housing market meltdown.

They expect to start the project in September and during the next three years, conduct five experiments that will track how borrowers read, assess and recall the information included in the terms of their home loans.

By using a device that tracks eye movements, Stark said they will be able to see exactly what parts of the loan forms borrowers look at and for how long, providing clues that could help improve the process.

Stark said the idea for the project came when she tried to figure out why people would take certain home loans when they qualified for ones with more favorable terms, such as lower interest rates that do not include prepayment penalties.

"I always wondered how these people could be induced to do that," she said, recalling an instance in which one of her law students fell prey to the

low "teaser" rate of an adjustable home loan.

Though some borrowers understand these terms and take the risk anyway, Stark said they probably are deceived by mortgage lenders who choose to point out certain information while skipping over other details.

Despite the recent passage of a federal law requiring new home loan disclosure forms, Stark said people are still losing their homes to loans they can't afford. She hopes her research will persuade Congress that it needs to do more to protect consumers.

"It doesn't matter how good a form is if the person leading you through it isn't good," she said.

Stark said there are many cases in which borrowers could have prevented problems if they did more than skim the long and complicated agreements before signing them.

But even if they thoroughly read the agreements, Stark said some consumers may miss important details because they are only looking for information that confirms what their lender promised. Others may forget to ask about a term they know is important after the lender fills their head with countless innocuous terms.

"I think the federal government needs to do more. It's not enough to just revise the forms to make them more consumer-friendly," Stark said. "We are really excited to get going on our project and hope our findings show what the best way to counsel consumers is."