This Change Paves the Way for Millennial Homebuyers

The GSEs' new underwriting technology accounts for income generated by gig-economy jobs

By Adam Roseman

Earlier this year, government-sponsored enterprises (GSEs) Freddie Mac and Fannie Mae deployed new technology designed to automate the underwriting process for borrowers who are self-employed or who have sizable income from secondary jobs. It's a significant step toward addressing the economic realities of many millennial homebuyers.

Through the use of optical character-recognition technology — which reads tax returns, identifies what qualifies as eligible income and integrates that information into the GSEs' electronic underwriting systems — loan applications for gig, contract and freelance workers can be processed within minutes. This innovation simplifies the process for future homebuyers who survive or thrive off irregular income.

This is especially important to millennials and the mortgage originators who work with them. Millennials tend to generate more of their income from freelance and contract work. By being able to identify their true income, many of these millennials will be able to buy homes and become potential clients.

Millennial buyers

The average age of the typical homebuyer is 46, or about eight years older than the oldest millennials. Still, for the sixth year in a row, millennials are the most active generation of buyers on the market, according to the National Association of Realtors (NAR). Around 10% of buyers are younger millennials — in their mid- to late 20s — while the remaining share of millennial buyers are in their early to late 30s, NAR reported.

In December 2018, the Pew Research Center released an analysis of millennial households. The report found that millennial households, headed by people ages 22 to 37, earn a median income of $69,000. This is a higher amount than young-adult households have earned at nearly any point in the past 50 years.

Saddled with seemingly insurmountable student-loan debt and somewhat stagnant wages, however, younger millennials are priced out of the home-purchase market in many areas. Although the average income necessary to purchase a home varies greatly from city to city, county to county and state to state, NAR reported the median household income of homebuyers in 2017 was $91,600.

This may be why many millennials turn to the gig economy, which are usually temporary jobs. In 2017, gig-economy workers earned $828 per month, or nearly $10,000 annually. A family of two that each earns an additional $828 per month would make nearly $20,000 more per year. Together, the family would have a household income slightly less than that of the typical homebuyer.

Calculating income

One of the problems facing millennials is being able to show their full income. Freelancers, contractors and other self-employed workers traditionally have a tough time obtaining home loans because they are unable to show underwriters their W-2 pay stubs, two years of steady income or the likelihood they will receive at least the same pay for the foreseeable future.

Lenders currently expect contract workers to produce their full tax returns — beyond the electronic transcript from the Internal Revenue Service — for multiple years. This includes all hard documentation of any supplemental income, which many of these borrowers may not have had long enough, or it may not be considered steady enough to be eligible to receive funding under existing rules.

Congress has been working to help ease entrance into the market for self-employed and contract workers. In August 2018, lawmakers introduced legislation that would expand lenders' permissible sources for verifying income beyond the range specified in current ability-to-pay and qualified mortgage regulations. As of this past July, the legislation hadn't moved forward.

This appears to be an issue that won't be going away anytime soon. About one in three U.S. workers currently do some freelancing. By next year, half of U.S. workers will be employed in some fashion as freelancers, according to a study commissioned by the Freelancers Union and Upwork.

Generational shift

Millennials are increasingly performing contract work as a primary source of income, or are consistently taking contract work to improve their spending power. The generations right behind them, such as Generation Z (those born after 1996), plan to follow suit as they enter the job market.

This evolving workforce will only continue to rely on the gig economy. Freelancers have entered into virtually every job sector, from manufacturing and information technology to creative services, health care, accounting and finance.

This past January, the Boston Consulting Group's Henderson Institute released a report titled, "The New Freelancers: Tapping Talent in the Gig Economy," which found that 40% of companies expect gig workers to become an increasing part of their workforce. This will increase the available types of work freelancers can take on, as well as the number of opportunities available to them in their respective professions. The report also found that nearly half of freelancer respondents would prefer to work independently, and would choose to seek out and acquire new clients to meet their financial goals.

Millennials are consistently selecting freedom to make their own schedule — and work the days and hours they want — over the constraints of a traditional work setting. And 61 million Gen Zers are expected to join the workforce in the next few years. It's imperative for mortgage originators to find ways to streamline the process of lending to these generations and workers with variable incomes. ■

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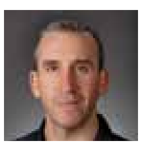

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