SIGHTLINE

Mortgage industry insights to navigate a changing market

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Freddie Mac Single-Family

Letter from the Editor

A veteran of over 30 years in the mortgage industry, Chris Boyle is responsible for sourcing Freddie Mac's Single-Family business, which includes client experience and management, marketing, bulk purchases, and servicing exchange executions.

Dear readers,

Welcome to the inaugural issue of Sightline – insights and perspectives on leading edge topics in the mortgage industry.

Inside, you'll find everything from mortgage technology innovations and the impact of cyber risk to future borrower behaviors and mortgage market trends. Whether you're serving millennial or Hispanic buyers, wondering how aging populations will ultimately affect homeownership, or how to best use the latest technology to grow your business, we've got something for you—insights and perspectives from experts throughout the industry

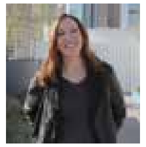
Freddie Mac Single-Family is committed to helping you thrive in a changing market. With so many unknowns in today's ever-evolving landscape, we hope this will bring you a little closer to feeling informed—so you can focus on the task at hand: helping borrowers on their journey to homebuying.

Sincerely,

Chris Boyle
Chief Client Officer,
Single-Family Division,
Freddie Mac

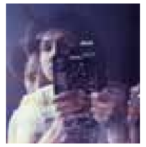
SIGHTLINE

CONTRIBUTORS



Melanie Lockert

Melanie Lockert is the founder of the blog and author of the book, Dear Debt. Through her blog, she chronicled her journey out of $81,000 in student loan debt. Her work has appeared on Business Insider, Time, Huffington Post, and more.

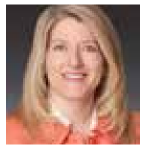


Jonny Marlow

Jonny Marlow is a Los-Angeles based editorial and commercial photographer. He is widely known for his work with some of the world's leading actors, including William H. Macy, Walton Goggins, Timothy Olyphant, and Topher Grace. Marlow is represented by agency Early Morning Riot.

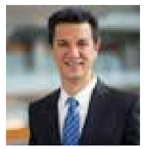
Rick Lang

Rick Lang and his team work with lenders, as well as their supporting technology providers, to optimize both the technical and process integration of Loan Advisor and its tools within their respective operating environments.



Cindy Waldron

Cindy Waldron is director of research analytics and modeling in the Single-Family Affordable Lending and Access to Credit division. Her responsibilities include researching the evolving needs of the affordable and underserved markets.



Danny Gardner

With over 25 years of mortgage banking experience, Danny Gardner is responsible for fulfilling Freddie Mac's community mission to provide sustainable homeownership education and financing to families who are traditionally underserved by the market.

Hakan Beygo

Hakan Beygo is responsible for the bulk loan acquisition channel, the servicing-released execution businesses, and managing secondary market advisors. He helps clients manage their balance sheets by providing liquidity through bulk loan sales, servicing rights sales, and acquisitions.

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BORROWER OF THE FUTURE

Foresights into the future housing market and a deep dive on the homebuying mindset, behaviors, and motivations of future borrowers.

Busting Out Of The Basement

Millennials ramp up the rate of homebuying.

We hear about how millennials are taking their time reaching milestones like moving into their own homes, getting married, and having children. But are they different from the generations that came before? Or are they just arriving at these milestones a little later in life?

It's true that there are 1.6 million fewer households headed by young adults today compared to previous generations at the same age, according to new research from Freddie Mac. And many millennials don't own homes, either.

However, the lower level of homeownership "is not because millennials don't want to buy homes," says Ralph McLaughlin, founder and chief economist of Veritas Urbis Economics (VUE), a housing market analysis firm. "They do—it is part of their American dream."

Millennials' parents—the baby boomers—often are choosing to "age in place" instead of retiring and moving to the sunbelt the way their own parents did. With boomers retiring later in life, living longer, and renovating their homes with safety and convenience features instead of selling them, there's a lack of supply to meet millennial demand.

Randy Noel, chairman of the National Association of Home Builders (NAHB), explains that tough economic times forced millennials to "delay household formation, marriage, and other milestones." As McLaughlin observes: "It's hard to convince someone you're marriage material if you're living in your parents' basement."

Coming into their own

McLaughlin also points out that "most of the root causes of the financial crisis aren't really around anymore." And now that older millennials are in their late 30s, they're starting to get married and have children—two big catalysts for buying a house.

So it comes as no surprise that millennials continue to drive today's homebuying rates. And just like their parents, the majority of them want a single-family home with a yard, according to Noel.

But there are still differences between millennial and baby boomer homebuyers. For example, McLaughlin points out that "smaller households are buying smaller houses, which means the demand for the types of homes that people are buying may

> Fifty-two percent of millennials who have been looking for a home said they can't afford one.

be shifting." Meanwhile, Noel observes that "millennials are more heterogeneous … and culturally diverse than previous generations. And because they range in age from 17 to 37, millennials have incomes across the economic spectrum."

In a NAHB survey, 52 percent of millennials who have been looking for a home for three months or more said they haven't bought a home yet because they can't afford one.

Homebuyers who don't have a lot of savings need to understand that it may take time for them to improve credit scores and debt-to-income ratios, factors that help determine mortgage eligibility and rates, says Jessica Lautz, managing director of survey research at the National Association of Realtors.

Lautz also says there's a financial education gap to fill as millennial homebuyers may not be aware of programs that can assist with property taxes and down payments or even what's required for a down payment. "Non-owners may not be aware the typical down payment was five percent last year among first-time buyers," Lautz says. "Helping to educate consumers is a great step towards ownership."

The future

The standard expectation is that young adults will add around 20 million households to the U.S. economy over the next decade, according to a Freddie Mac study ("Why Is Adulting Getting Harder? Young Adults and Household Formation"). But if housing costs continue to rise, household formation will be suppressed by about 600,000 fewer households over the next decade, the study notes.

One way lenders can help millennials through the home buying process is by meeting them where they are. In this case, their electronic devices. "Younger homebuyers have been brought up in a world that's increasingly paperless and more digital," McLaughlin says. "Any new product that can fit those preferences is going to be key."

THERE ARE SEVERAL REASONS MILLENNIALS—THOSE BORN BETWEEN 1981 AND 1996—ARE BUYING THEIR FIRST HOMES LATER.

01

This generation owes a large chunk of the $1.4 trillion in outstanding student debt in the U.S. Young adults today who have student debt have an average net worth of negative $1,900.[1]

02

Millennials came of age after the 2008 housing crisis. After housing prices bottomed out at the end of 2012, rents across the nation rose an average of almost 20 percent, making it difficult for many to save for a down payment.

03

Even when millennials do have savings, they may have difficulty convincing a bank they have the necessary income to qualify for a loan: Increasingly, millennials don't have only one on-payroll job and a W-2 to show income. They also change jobs more than three times faster than people in previous generations did.[2]

References:
[1] "The Financial Health of Young America," Young Invincibles, January, 2017
[2] "How Millennials Want to Work and Live," Gallup
[3] "The Changing Face of the U.S. Homebuyer," by Ralph McLaughlin, Veritas Urbis Economics, April 23, 2018

EDUCATED HOMEBUYERS ARE IDEAL PROSPECTIVE HOMEOWNERS

Well-informed millennials are poised for homeownership.

As the largest generation in U.S. history, millennials are poised to have a huge impact on housing. By educating would-be homeowners on emerging trends and correcting misinformation, lenders and mortgage professionals can better anticipate and serve the needs of future borrowers. Millennials have been slow to become homeowners for various reasons. So what's holding them back? Part of it is concerns about affordability and misinformation about down payments.

Mortgage-ready millennials—those 40 or younger who do not have a mortgage but have the credit characteristics to qualify for one—generally have the means to purchase a single-family home. But soaring prices may put homeownership out of reach in high-cost cities along the East and West Coasts. According to an Urban Institute study:

- **75 to 78 percent of mortgage-ready millennials in New York and Los Angeles, respectively, can afford a median-priced home.**
- **98 percent of mortgage-ready millennials in Dallas and Houston can afford a median-priced home.**

Addressing affordability and dispelling down payment myths

Many millennials mistakenly think they need a down payment of at least 15 percent to purchase a home, but the median down payment in the U.S. in 2017 was just 5 percent. Lenders can address this information gap by educating homebuyers about programs that address affordability and offer down payment alternatives.

Research conducted by Freddie Mac indicates that these are a few of the resources first-time homebuyers should be investigating:

- Low down payment options for qualified borrowers.
- Automated assessments for borrowers lacking a credit score.
- Automated home valuations, making the homebuying experience more efficient.
- Automated process for validating self-employed borrowers' financials.
- Consumer-focused resource center with tools and information on renting, purchasing, and owning a home.

THE SINGLE-FAMILY HOUSEHOLD AND HISPANIC AMERICANS

Tailoring the mortgage process for multigenerational families.

Multigenerational living—defined as at least two adult generations or grandparents and grandchildren younger than 25 living under one roof—is a rising trend in the U.S. More than 64 million Americans (one-fifth of the population) live in multigenerational households, and the phenomenon is especially prevalent in the Hispanic American community.

Over the past decade, Hispanics have also accounted for the largest share of population growth in the United States. As the trend toward multigenerational living continues, it underscores the need for mortgage professionals to explore business practices beyond those that were built around the traditional nuclear family.

Homeownership as a central pillar

Between 1950 and 1970, the U.S. population grew by more than 50 million. During this period, the number of multigenerational households declined from 32.2 million to 25.8 million, reflecting the postwar development of the suburbs and a booming economy that enabled middle class families to own a home and a car.

The trend has since reversed: 20 percent of Americans live in multigenerational households, and the proportion is higher for Hispanic families (27 percent). This cohort is poised to have a profound effect on real estate development, home financing, and the overall housing market.

"Homeownership has always been a central pillar of Hispanic identity as it relates to economic prosperity," says Scott Astrada, director of federal advocacy at the Center for Responsible Lending. Marisa Calderon, executive director of the National Association of Hispanic Real Estate Professionals (NAHREP), points out that Hispanic communities see homeownership as a key part of long-term stability for their families.

Calderon also notes that Hispanic communities tend to have a strong sense of family, which is why several generations often live together. It's common for homebuyers to pool money from family members to purchase a home. One study conducted by the Hispanic Wealth Project found that Hispanics are 74 percent more likely than non-Hispanics to be persuaded by their children on product purchases. "Understanding that homebuying may be experienced as a multigenerational process is an important element for mortgage professionals working in the community," Calderon says.

Embrace the differences

Be careful not to paint the community with a broad brush. "I'm from Texas, home to a large Mexican-American population," says Danny Gardner, senior vice president of Single-Family Affordable Lending and Access to Credit at Freddie Mac. "When I moved to the Mid-Atlantic, I found that most people of Hispanic origin tend to be from El Salvador. In other parts of the country, such as south Florida, I might find more Cuban and Caribbean Hispanics. Be sure to understand your local market because not all communities are the same."

Filling the education gap

Non-white families typically have substantially less wealth than white families. "But from a homeownership perspective," Calderon says, "what's largely misunderstood, not just by Hispanics but by the population in general, is that you don't need to have a 20 percent down payment to purchase a home. You can purchase a home with 3.5 percent or 5 percent down or with different kinds of assistance, depending on your income."

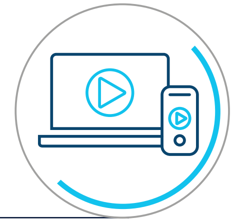
Housing professionals can do a better job helping Hispanics and other interested first-time buyers understand their options with outreach. Community banks and credit unions with homeownership programs that take consumers through the homebuying process from beginning to end are especially helpful, notes Astrada.

"They actively go out into the community and offer workshops and professional development opportunities—proactive steps that any lender can make, not only to drive homeownership but also to cultivate positive relationships with the Hispanic community and long-term customers."

To better understand and serve Hispanic communities, lenders and other mortgage professionals should:

- Be careful not to paint the community with a broad brush; understand your local market because not all communities are the same.
- Think about potential barriers in their origination platforms, including clearly communicating lending guidelines and modifying the number of signature lines available on loan applications or mortgage notes and deeds.
- Understand that every transaction is different. Lenders who are comfortable assessing income from multiple sources will better serve a diverse range of buyers.
- Employ more people from a younger demographic who have language skills that would be helpful to borrowers.
- Provide down payment options—as low as three percent down for qualified borrowers.

HOW TO REACH MOBILE SUPER CONSUMERS



Crafting a digital strategy for the rapidly growing Hispanic market.

Hispanic Americans use smartphones to communicate, shop, access entertainment, and socialize more than any other U.S. demographic—so much so that marketing experts call them the "super consumers" of mobile. Combine this trend with the rise in Hispanic homeownership, and there's a huge opportunity to connect with this fast-growing, increasingly affluent population through mortgage solutions and homebuyer education.

To sell to Hispanic consumers, mortgage professionals should promote solutions tailored to their needs and channeled through the right media. Mobile is the ideal platform.

01

When it comes to mobile usage, Hispanics:

Spend more than 14 hours per week on apps, audio, video, and the web, according to a study by Nielsen.

Use 658 minutes per month on their mobile plans (the average consumer uses 510).

Bilingual Hispanics outrank all other groups, using 763 minutes every month.

Source: "U.S. Hispanics Are Super Mobile, Super Consumers," Nielsen, 2015.

02

When it comes to financial services:

77 percent of Hispanic Americans check bank account balances and pay bills on mobile devices.

About 40 percent make money wire transfers using phone apps.

Nearly 70 percent do all their banking through mobile, with a 27 percent increase in adoption between 2013 and 2018.

[Sources: "US Hispanic consumers: Always connected," Consumer Intelligence Series study by PwC, 2016 and "Top 10 Hispanic Mobile Banking Trends," BankNews, 2018.]

03

Tackling barriers to homeownership

To gain traction, lenders should start with well-articulated solutions to problems some of these borrowers may face when buying a home, including:

- Imperfect credit histories.
- The inability to make a large down payment.
- Concerns about income requirements.

Piecing together total annual earnings from inconsistent, unique sources of income, such as consulting, project work, or seasonal employment.

04

Synchronizing the message with the medium

To increase market share with this growing demographic, lenders should deploy mobile marketing that's strategically distributed and emphasizes problem solving. They can leverage resources designed to meet these customers' needs, including:

An online educational site with tools and information for prospective homebuyers.

Low down payment options for qualified borrowers.

Automated assessments for borrowers lacking a credit score.

A self-employed borrower income assessment solution.

An industry-standard site with a Spanish-language mortgage glossary and free translated mortgage homebuyer documents.

How lenders are leveraging technology in unprecedented ways to overcome challenges and advance relationships with hard-to-reach consumers.

02 TECH AND INNOVATION

GOING DIGITAL BREAKS DOWN THE BARRIERS TO HOMEOWNERSHIP

Lenders who adopt digital platforms can ease the challenges of connecting with hard-to-reach consumers.

The mortgage industry is revamping its traditional processes and going digital. The goal? Speedier transactions, lower costs, and fewer processing errors.

But there's another compelling reason to embrace the industry's digital reinvention: New tools can knock down barriers to entry for hard-to-reach consumers traditionally overlooked by the mortgage industry. Cultivating business in untapped borrower segments can help lenders gain an edge in an increasingly competitive mortgage market.

Competition heats up

Rising interest rates and lofty home prices are making homeownership more expensive, and consumers are growing cautious. Meanwhile, consumers' preference for a more streamlined digital experience becomes clearer each year as online lenders gobble up more market share from traditional banks, which are in different stages of transitioning to new technologies. Last year, nonbank lenders—meaning those with no depository business—accounted for the majority of mortgage transactions for the first time. Six of the ten largest mortgage originators were nontraditional companies, according to Inside Mortgage Finance, which tracks trends in the residential mortgage market.

"Lenders who want to survive and even thrive in an environment with these macromarket-driven headwinds should be making every effort to eliminate friction in the mortgage application and approval process," says Daren Blomquist, senior vice president at ATTOM Data Solutions, a real estate analytics firm. "Moving toward a digitized mortgage is a key way to achieve this."

"Digitization should not be a question of if it will happen, but when it will happen," says Kevin S. Parikh, CEO of Avasant, a Los Angeles-based management consulting firm, and author of Digital Singularity: A Case for Humanity. "People expect complete digital and omnichannel access to their business partners and services. Businesses that do not make this investment will be left behind and quickly disrupted by challengers in the emerging digital economy."

Leveraging digital platforms

Digitization can begin early in a consumer's homebuying process with online primers on the purchasing process and interactive tools to analyze buying readiness, says Rick Lang, vice president of Freddie Mac's Loan Advisor platform. From there, more sophisticated technology is available to handle the mortgage application and underwriting processes. Even alternatives to traditional appraisals can be conducted digitally by analyzing historical data and public records to size up collateral risk and valuations, he says.

These technologies eliminate the need for in-person meetings, paper shuffling, and manual data transcription, potentially reducing costs by 25 percent or more and shaving weeks off a transaction's timeframe, adds Dan Ashdon, vice president of product capability at Freddie Mac.

If leveraged wisely, these tools can also help clear the way to homeownership for consumers who have traditionally posed a big challenge for mortgage lenders, such as people with no W-2 income, little to no credit history, or limited liquidity. The process of compiling documents, culling data, and crunching numbers is particularly cumbersome and risky when credit issues and income complications are in play. Digitization provides speedy analysis of potential borrowers' ability to afford a mortgage and improves the accuracy of the process.

> "Businesses that do not make this investment will be left behind and quickly disrupted by challenges in the emerging digital economy.

"With a manual process, omissions could be overlooked or take hours to uncover," Lang says. "A digital system will flag it instantly."

Going for growth

Lenders that are leveraging digital capabilities are in a better position to compete for business.

Millennials have been notoriously slow to step into the housing market. Just 37 percent are homeowners—8 percentage points fewer than Gen. Xers and baby boomers when they were in the 25 to 34 age range, according to the Urban Institute. It's not that they're slackers—one-third of the U.S. labor force is made up of millennials. But they came of age during the 2008 housing crisis and recession which, combined with hefty student loan debt and marriages later in life, has kept many millennial workers on the sidelines of homeownership.

According to Lang, this tech-savvy generation is likely to have little tolerance for a lengthy face-to-face and paper-heavy mortgage process.

Consumer expectations are high across the board, and traditional business hours are a thing of the past. "Real time is the new standard," asserts Suzanne Dann, general manager at Avanade, Inc. "The expectation is that consumers can get an answer to any question and get served relevant and timely content to make a decision or execute a transaction any time of day without talking to a person, much less visiting a physical location."

Going digital is a journey that requires lenders to rethink their business, including processes, talent, and how they measure success, Dann says. "Companies that embrace digital transformation can create more targeted and personalized consumer interactions, modernize their business operations, and ultimately gain efficiency."

A Recipe For Change

Rethinking the way lenders transfer mortgage servicing rights.

- Buyers have specific requirements on what data and loan documents they need, as well as specific file delivery processes and requisite stacking orders for paper or imaged documents.
- To accommodate buyers, sellers have teams of employees who prepare loan documents according to varying specifications and then supplement them with data that a buyer needs to service a loan.
- Because the process is manual and time-consuming, many sellers only work with a few buyers, even if it limits the number of competitive bids—and possibly the best price—that they get for their servicing contract rights.

Time is money in the mortgage industry. Any bottleneck in a highly regulated, deadline-driven process—such as selling servicing contract rights—hurts a lender's bottom line. Lenders need to secure the most competitive bids from servicers, regardless of document and data delivery requirements.

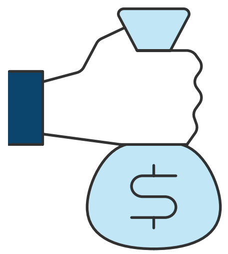
When it comes to selling servicing contract rights, the financial transaction between lender and servicer is standardized and electronic, and can take place within 24 hours. But the transfer of loan documents and borrower data following the sale can stretch out for weeks. Here's why:

As with a lot of other challenges in the mortgage industry, technology offers a solution. Today, there are scalable database technologies that support electronic document delivery and record-keeping in compliance with loan servicing regulations. Over the past few years, financial technology (fintech) vendors have introduced new applications designed to help lenders and servicers obtain, store, and transfer borrower data and documents.

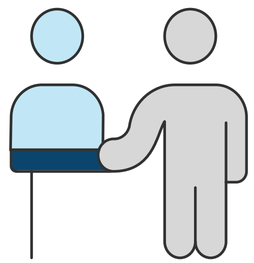
Such technology enables lenders to deliver loans to the GSEs and receive cash for selling servicing contract rights within a transaction. For example, this technology:

- Allows sellers to upload loan documents into a portal in any order.
- Extracts information to produce a servicing data file that meets the buyer's requirements.
- Renames and orders the imaged loan documents in the buyer's preferred stacking order.
- Allows buyers to download either gap data or the complete servicing data file, and the imaged loan documents in its requested stacking order.

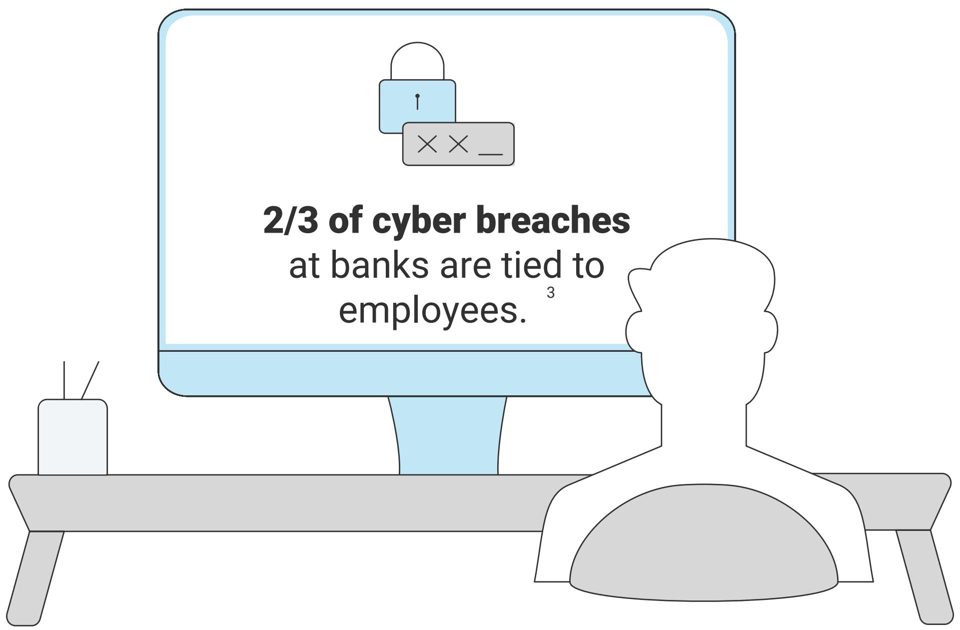
The State of Mortgage Cybersecurity in an Increasingly Digital World



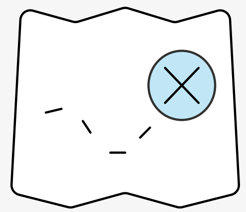
Hackers could steal data from an estimated **60 million U.S. mortgage records**.[1]



More than **1 in 4 consumers** aren't "completely comfortable with a digital mortgage."[2]

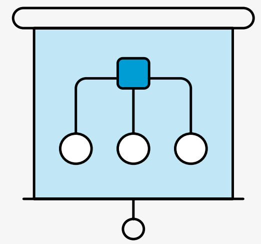


What can lenders do to mitigate risk and protect their customers and reputations?



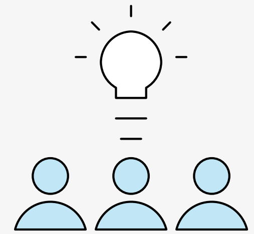
Develop a plan for managing partners.

- Assess security frameworks and policies
- Use tools to monitor security risks in real time
- Improve contractual provisions
- Develop a customer response plan



Prepare your employees for potential threats.

- Train employees to identify and respond to threats
- Make training interactive and informative
- Create a culture of awareness and reporting



Communicate with customers consistently.

- Inform customers how information is being sent and who should and shouldn't see it
- Highlight vulnerabilities of personal email
- Communicate data security protocols

Sources:
[1] Santos, Alex, "Mortgage data isn't secure: Here's why and how to fix it." Rewired. May 18, 2017
[2] Martin, Craig. "Lenders, you've got hurdles to overcome on the path toward the digital mortgage," HousingWire. February 7, 2019
[3] Willis Towers Watson. https://www.willistowerswatson.com/en-US/Insights/2017/09/Cyber-risk-its-a-people-problem-too

03

INDUSTRY INSIGHTS

A quick look into the changing mortgage industry and strategies to maintain a competitive advantage by staying ahead of the game.

COULD LENDERS HOLD THE KEY TO THE AGING HOUSING STOCK CRISIS?

New financing alternatives make older home renovation accessible.

America's homes are getting older. With the median age of owner-occupied homes at 37 years and climbing, the aging housing stock contributes to other issues, such as the affordable housing shortage, energy conservation, and natural disaster preparedness. A widespread renovation boom, spurred by new lending solutions, could be part of the answer.

What's driving the aging housing stock and who is impacted?

More older homes are in the market today due, at least in part, to sluggish new home construction that hasn't fully recovered since the recession, so demand is outpacing supply—particularly in urban and rural areas. Nearly 80 percent of America's housing stock is at least 20 years old, and 38 percent of those older homes were built before 1970. Areas that have been hit particularly hard by aging housing stock are California, the Midwest, Mid-Atlantic, and Northeastern regions of the country. In several states in these regions, the median age of a house creeps up as high as 40 to 60 years.

Data from the National Association of Home Builders shows that the majority of older homes are owned by people nearing retirement age—a full 55 percent of homes built before 1970 are owned and occupied by homeowners ages 55 and over, according to HousingWire. Much-needed home renovations could make affordable, physically-accessible homes available to America's aging population. Those with a fixed or limited income will need new financing options to be able to age in their homes.

A renovation resurgence addresses multiple problems linked to older homes

A greater emphasis on renovation loan solutions can:

- Offer more opportunity for lenders. According to the National Association of Realtors, 1.7 million older housing units were demolished and removed from the housing stock from 2009 to 2016. If those homes had been renovated, available housing stock would have more than doubled by 2017.
- Create better home energy efficiency: Homeowners spend about 29 percent of the market total on improvements to increase the energy efficiency of their homes, such as replacing roofing and windows and adding insulation.
- Help prevent home damage from natural disasters: In the South and Midwest, these types of renovations in 2016-17 were nearly double the two-year average two decades earlier.

Homeowners need broader financing options

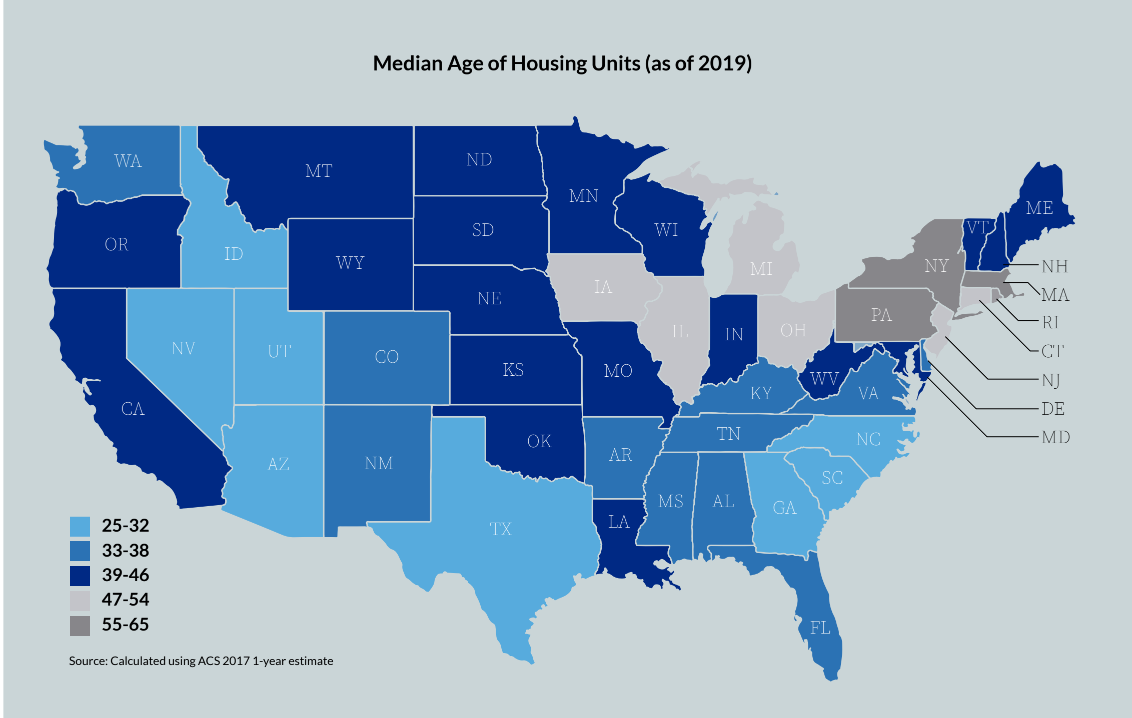
Unlike new home construction, the renovation market has grown more than 50 percent since 2009, according to a Harvard University study. But the means to pay for renovation projects hasn't kept pace. For smaller renovations (those under $10,000), about 77 percent of homeowners pay cash and, surprisingly, even more expensive projects—those costing $50,000 or more—are paid for with cash more than half the time.

Homeowners with little or no equity and no extra cash to make necessary renovations to an older home might assume they're left to contend with the trials of an aging home. But new flexible lending solutions make it easier and more cost-effective for these homeowners to finance renovations, repairs, and improvements.

For example, renovation mortgages include features such as:

- Convenience and cost savings for borrowers who finance their home purchases and renovation costs in single-closing transactions.
- No cash-out refinancing help for current homeowners or those looking to purchase.
- The ability for lenders to sell the loans during construction (with recourse and prior approval) but before renovations are complete.
- The ability for lenders to sell the loans without recourse after the renovations are complete.
- Expanded eligible renovations, including housing resilience (to prevent and repair damage caused by natural disasters) and energy efficiency.

Lenders now have the tools at their disposal to grow their portfolios while offering cost-effective financing solutions that will help address the aging housing stock problem and the many housing issues stemming from it.



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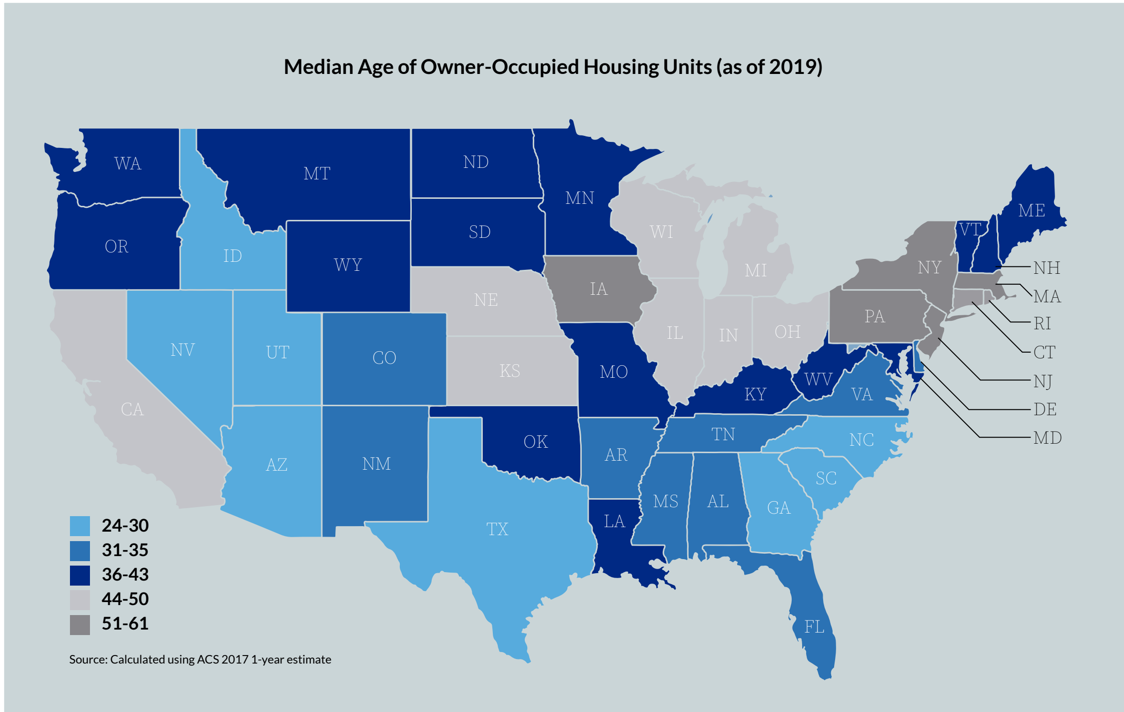


KEY INSIGHTS INTO MORTGAGE FRAUD RISK

What lenders should know in order to stay ahead and informed.

Mortgage fraud isn't new or going away soon. According to CoreLogic's 2019 Mortgage Fraud Report, mortgage fraud risk stabilized and slightly decreased through the first quarter of 2019. However, the decrease may be temporary, due in part to a decrease in interest rates and an increase in lower-risk refinance transactions. On top of that, the report found that one in 123 mortgage applications have indications of fraud, as of Q2 2019.

Managing fraud takes up time and energy. Fraud can hurt lenders' credibility and cost them financially. It can also hurt borrowers. For lenders to better understand how to protect themselves and their borrowers, here are recent real-world examples of income and employment falsification schemes.

Similar paystubs

In an investigation involving false income information in multiple loans originated by a mortgage brokerage firm, Freddie Mac's Single-Family Fraud Risk (SFFR) team first observed suspiciously similar loan profiles between two borrowers. In both loans, the borrowers worked at different nail salons as contract employees before quickly becoming full-time employees, earning significantly more than before. During the investigation, one of the nail salon owners confirmed the paystubs in the loan file were not issued by her business. Also, the borrower's paystubs had the same font and format as other borrowers who worked at different salons in different cities, and the handwriting on the borrowers' verification of employment (VOE) forms was identical.

Phantom employers

In another case, Freddie Mac seller/servicers identified multiple loans where the borrowers had been employed for just a short time. The seller/servicers called these businesses and became concerned when the purported employers demonstrated a lack of professionalism. The SFFR team investigated and learned that the employees of a mortgage broker had created fictitious businesses that these borrowers could claim as their employers in their loan applications. To add authenticity, the brokerage even created fake websites, phone numbers, and street addresses for these fictitious businesses.

Falsified college transcripts

Freddie Mac's SFFR team has seen an increase in cases in which the documentation of employment history includes false college transcripts. In one case, one of Freddie Mac's sellers was alerted to potential fraud when two mortgages originated by the same loan officer had identical borrower profiles—both borrowers claimed to be recent college graduates, had limited work histories, had the same job with the same employer, and had been qualified for a home loan in northern California.

How to prepare for and prevent mortgage fraud

Mortgage fraud can come in many different forms and can happen at different stages of the homebuying process. Lenders should be aware of the various types of mortgage fraud out there and take steps to mitigate its impact.

Technology can make it easier for fraudsters to replicate official documentation. Lenders should be on the lookout for anything suspicious that raises a red flag during the mortgage application process, including:

- A business search that yields no results or turns up business websites with scant details.
- Recent promotions or raises that are inconsistent with the borrower's employment experience or that occur just prior to the loan application.

Lenders should also conduct background checks on the people they're working with, including third-party originators, loan officers, net branch managers, and appraisers. Having strong quality control and fraud detection processes can help lower the risk of mortgage fraud and protect lenders and borrowers.

Fraud prevention checklist:

- Fact-check income and employment.
- Look for discrepancies.
- Train others in fraud prevention so they know what to look for.
- Perform background checks on people you work with.
- Establish a quality control process.

To learn more, visit Freddie Mac's fraud prevention page. If you identify any mortgage fraud, call the Freddie Mac Fraud Hotline at (800) 4 FRAUD 8.

The leading trends you need to know that are creating lending opportunities for borrowers and mortgage professionals.

04 EVOLVING TRENDS

Shifting Populations Drive Regional Growth Opportunities for Lenders

How affordability impacts where millennials choose to live and work.

Americans are moving from coastal states in search of affordable housing, and companies are helping it happen by creating tens of thousands of jobs in the South, Southwest, and Midwest. Lenders and realtors in these markets can benefit from this wave of new borrowers—especially millennials, who are now the largest group of homebuyers in the country.

Technology sector treks inland

Apple Inc. recently announced plans to build a new campus in Austin, Texas. Google signed a new lease on an office tower in Austin to grow its workforce there.

Although Austin's housing prices have jumped in the past decade, they are much lower than in Silicon Valley. In addition to Austin, Apple is fanning out between the coasts in places like:

- Maiden, North Carolina.
- Waukee, Iowa.
- Sparks, Nevada.
- Mesa, Arizona.
- Nashville, Tennessee.
- Pittsburgh, Pennsylvania.

Amazon is also hiring in the South and Midwest. Cities like Nashville, Tennessee and Louisville, Kentucky credit job gains to business-friendly regulation, skilled workers, and affordable cost of living—particularly reasonably priced housing.

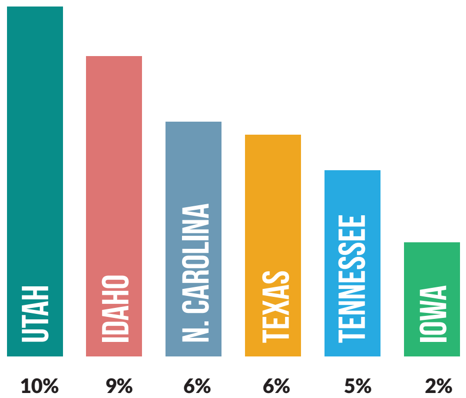
Beyond the tech giants, manufacturing and energy companies have in recent years created thousands of new jobs in cities such as:

- Indianapolis, Indiana.
- Boise, Idaho.
- Des Moines, Iowa.
- Louisville, Kentucky.
- Kansas City, Missouri.
- Columbus, Missouri.
- Salt Lake City, Utah.

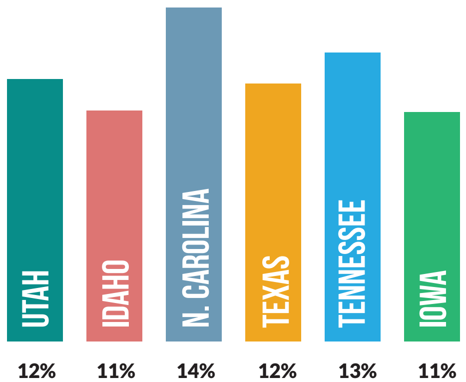
Job and income growth spurring migration

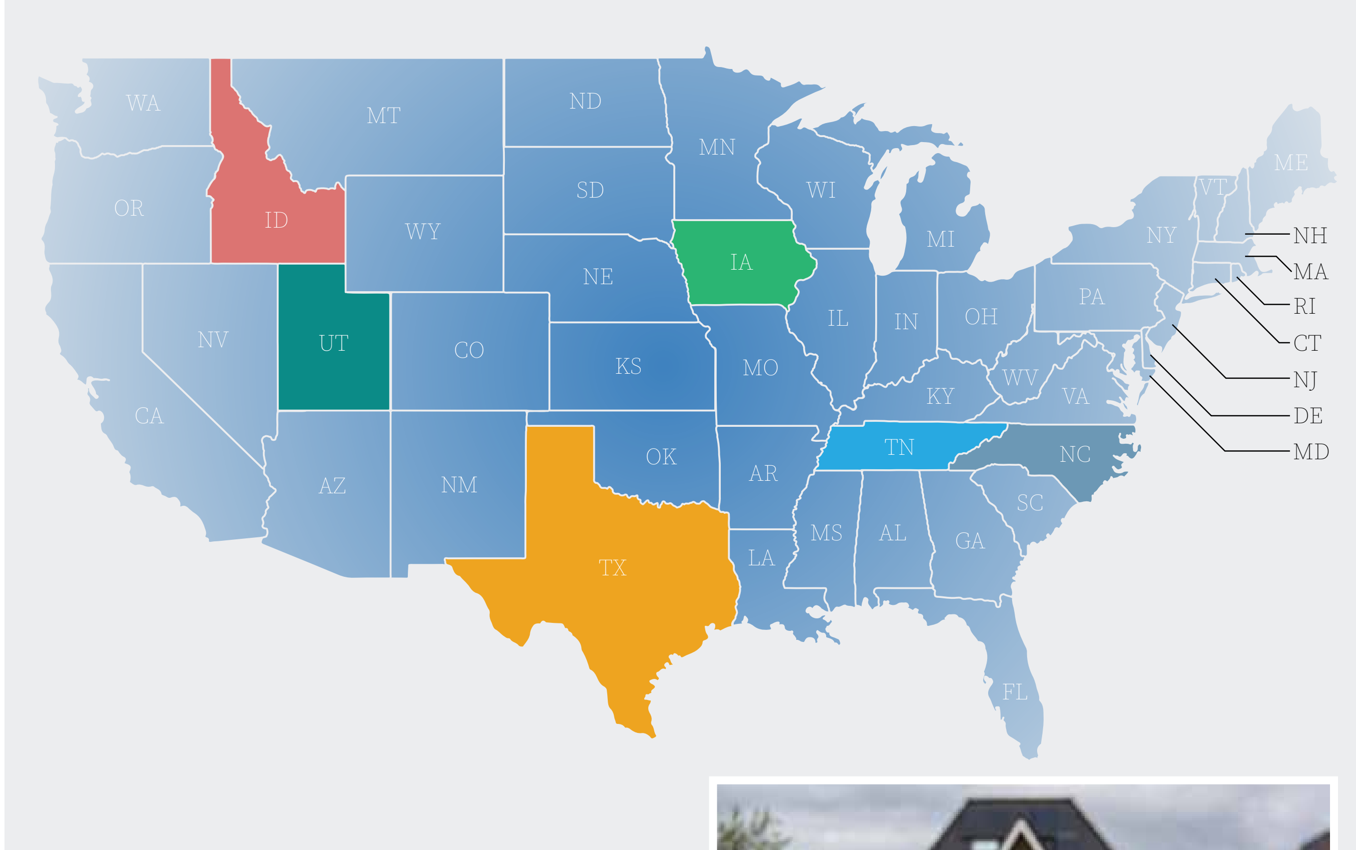
Rising employment and income levels are invigorating housing markets, particularly in the South and Rocky Mountain states (see charts below).

JOB GAINS

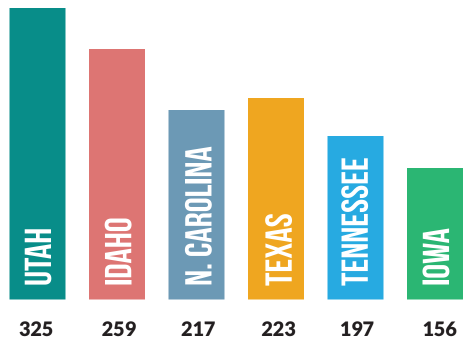


INCOME GROWTH





SINGLE-FAMILY HOME PRICES



Lower home prices and millennials are major drivers

One recent study by ABODO revealed a sharp contrast in the affordability of homes across regions. For example, it would take an average of 32 years for a millennial buyer to save enough to afford a 20 percent down payment ($85,637) for a median-priced home in Oxnard-Thousand Oaks-Ventura, California, about an hour from Los Angeles. This assumes the buyer could save 15 percent of his or her annual rent. Meanwhile, the average millennial buyer could afford a 20 percent down payment ($31,478) on a home in Des Moines in 7.5 years.

Despite the inward migration, home prices in inland states are expected to remain much lower than in cities like San Francisco, Seattle, New York, Boston, and Los Angeles. One of the reasons for this trend is the fact that older millennials are moving to cities where buying a home is feasible for middle-income and working-class families. This relocation movement is expected to accelerate as younger millennials form millions of new households and age into the prime homebuying bracket of 32 to 38 years old.

Lenders will benefit from the influx of new homebuyers

Inland migration, job growth, and a favorable ratio of income-to-home prices are presenting growth opportunities for lenders in burgeoning metro areas. In an era of higher interest rates and acute affordable housing shortages in the biggest, most affluent U.S. cities, affordable housing markets outside the coastal states should be on the mortgage industry's radar.

STRICTER FHA RULES
OFFER LENDING OPPORTUNITIES

The silver lining for future borrowers and mortgage professionals.

The Federal Housing Administration (FHA) recently announced that it will tighten credit standards for homebuyers looking to obtain FHA mortgage insurance. While the effects remain to be seen, The Washington Post reports that industry experts estimate the FHA's move may cause a 10 to 30 percent reduction in FHA business.

Although the FHA's decision will likely shut out some future homebuyers, it may provide lenders an opportunity to help other borrowers find better mortgage options.

What's behind the FHA's decision?

The FHA was compelled to revisit standards because of various concerning trends, such as:

- Increasing debt-to-income ratios exceeding 50 percent.
- Industry-low FICO credit scores.
- More loans having multiple indications of serious risk of nonpayment – a combination of credit scores of 640 or less and DTI ratios that exceed 50 percent.

What does it all mean?

Lenders can help borrowers make informed choices between FHA loans and other affordable, conventional mortgage options. These programs can provide low down payment options of three percent and are designed to make responsible homeownership accessible to qualified first-time homebuyers and qualified low- and moderate-income borrowers.

> "Lenders can help borrowers make informed choices between FHA loans and other affordable, conventional mortgage options.

When working with first-time homebuyers, lenders can better counsel borrowers with mortgage financing options that fit their needs by asking if they:

- Have a down payment of three percent.
- Have a FICO score lower or higher than 680.
- Are more interested in a low down payment or low monthly payment.

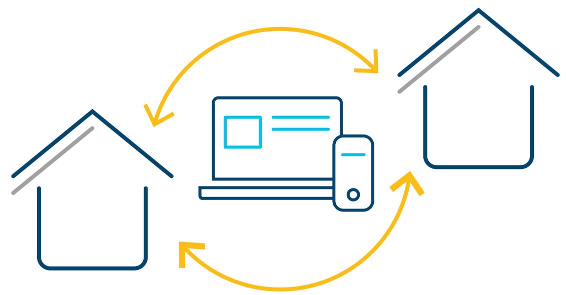
Depending on the answers, a lender can provide guidance and even a side-by-side comparison on whether an FHA or other loan option makes sense. This can ultimately help meet their goals, save money, and ensure long-term homeownership.

To better understand other affordable loan options, visit http://sf.freddiemac.com/homepossible

WILL HOME SHARING PLATFORMS IMPACT HOME PRICES?

What lenders should know about the sharing economy and its effects on borrowers.

Home sharing platforms like Airbnb have allowed individuals to turn an otherwise idle asset—their homes—into a revenue stream. In the same way ride sharing allows car owners to become suppliers of rides, home sharing allows homeowners to supply short-term housing.



Recent research suggests that the increasing use of home sharing platforms is increasing the prices of homes and rents. However, this effect is expected to diminish over time as new construction meets the higher demand for housing. A better understanding of how home sharing influences the traditional housing market can help lenders and mortgage professionals navigate the effects of the sharing economy and the evolving needs of borrowers.

How is home sharing affecting home buying?

Recent academic research has explored the effect of home sharing on house prices and rents using data on Airbnb activity. Key findings are that:

01

A one percent increase in Airbnb listings leads to a 0.018 percent increase in rents and a 0.026 percent increase in house prices, according to Kyle Barron, Edward Kung, and Davide Prosperio's research covering the entire United States.

02

A one percent increase in Airbnb listings causes house prices to rise from 0.06 percent to 0.11 percent, with listings closer to the property having a larger effect on prices than those farther away. This research was conducted by Stephen Sheppard and Andrew Udell, who used a hedonic model of house prices to estimate the effect of Airbnb in Manhattan.

03

A single standard deviation increase in Airbnb activity leads to a 0.4 percent increase in asking rents and a 5.9 percent decrease in available long-term rental units, according to Mark Merante and Keren Mertens Horn, who estimated a model of rents for Boston to determine the effects of Airbnb.

This research suggests that home sharing affects the long-term market for housing through property owners who pull units away from the long-term rental market. As supply in the long-term market declines, rental rates increase and lead to higher home prices. Additionally, the ability to rent unused capacity increases the demand for housing. It's important to note that this effect occurred while Airbnb activity was increasing rapidly and may not persist once the level of activity settles and developers, responding to higher home prices, begin to increase the supply of houses and apartments in those areas.

Key takeaways

While the impact of online platforms could eventually lead to more fundamental changes in how individuals acquire housing services, renting through Airbnb is not qualitatively different than renting in the long-term market from the point of view of a mortgage lender.

Housing prices rise due to the additional demand generated by home-sharing. Mortgage lenders should consider the possibility that this increase in demand may eventually translate into an increase in housing supply, erasing the rise in prices. However, for markets where housing supply cannot respond, like the downtowns of high-population coastal cities, the price increases from home sharing should persist.

MISSION STATEMENT

The housing market is dynamic, and the pace of change is accelerating.

To better navigate the evolving mortgage landscape, Freddie Mac brings together research, perspectives, and stories on the issues and trends that are driving the housing industry. With a unique viewpoint, Freddie Mac's experts explain what's happening, why, and where the market is headed to help the mortgage professionals of today prepare for the borrowers of tomorrow.

INDUSTRY TRENDS, MARKETPLACE DYNAMICS, AND MUCH MORE

Borrower of the Future

Powerful forces are transforming America, challenging and reshaping how people view themselves, their families, and their future prospects.

Business Operations

From affordable homeownership opportunities and manufactured housing trends to selling servicing contracts and energy efficient initiatives, lenders and mortgage professionals need to understand the issues impacting the mortgage industry to make effective business decisions.

Market of the Future

Current and emerging technologies such as artificial intelligence, blockchain, and the gig and sharing economies are affecting how companies operate in today's business environment.

Mortgage Technology

Lenders and mortgage professionals are continuously looking for ways to be more efficient, grow their business, and reach tomorrow's borrowers.

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