Freddie Mac
Single-Family

Homeownership Challenges and Recommendations

Homeownership Demographic Research

2021

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Introduction

Millennials, the generation born between Gen Xers and Gen Zers, began attracting the attention of market researchers at the start of the last decade as they gradually became the largest consumer group with ever-increasing buying power. Millennials adapted more quickly to new technology than older adults and were the first to prefer consuming content online. They also disrupted consumer behavior patterns by forming their own brand of life-stage priorities.

This generation will continue to shape our economy for decades to come. They now make up the largest share of new homebuying population and, as such, a critical borrower segment whose demands the housing industry must understand.

This research, which serves as a playbook for the housing industry, and beyond, captures the demographic, social and economic characteristics of millennials versus those of prior generations.

It also focuses on generational characteristics and how companies can build strategies that tap into these insights.

This playbook leverages an array of sources, including data derived from the Annual Social and Economic Supplement (ASEC), 2019 Home Mortgage Disclosure Act (HMDA) reporting, Freddie Mac loan-level acquisition data, the Current Population Survey (CPS) and the American Community Survey (ACS).

Please note, this playbook was created prior to the COVID-19 pandemic and therefore does not reflect its impact. For this reason, we will update this playbook as necessary to integrate the latest data and incorporate the effects of the pandemic on millennials and the housing market.

Silent 1928-1945	**Baby Boomer** 1946-1964	**Gen X** 1965-1980	**Millennial** 1981-1996	**Gen Z** 1997-2012
Ages 74-91	Ages 55-73	Ages 39-54	Ages 23-38	Ages 7-22

Ages as of 2019. Source: Pew Research

Key Findings

Millennials—born between 1981 and 1996—are arguably the most influential generation the nation has seen since the baby boomers. Their sheer size casts a shadow over their predecessors, Gen X, and they have overtaken the baby boomers to become the largest population cohort in 2019. Millennials have upended consumer expectations, shifted the timing of various life stages, represent the most racially and ethnically diverse adult age group, and earn more than prior generations.

All these factors prompted Freddie Mac to perform in-depth research in order to deconstruct this demographic segment. Our research confirms that millennials are a major force in the homebuying and mortgage business for years to come. This has led us to these key observations that will likely impact and shape U.S. homeownership:

→ A significant share of millennials have yet to mature into homeownership, as many of them either haven't reached the life stages that typically prompt a desire to own a home, find it unaffordable, or are unaware of options that could help them reach the "American Dream."

→ Given the higher millennial minority share, this generation is at risk of never reaching the same homeownership levels as older generations because of the historical divergence in homeownership rates between different races/ ethnicities.

→ While millennials are the most educated adult generation, they are less financially literate than older generations. As millennials are often called digital natives, they leverage fintech tools more than older working-age adults. Studies find that fintech tool usage is not a substitute for financial education and is often tied to poor money management. This, in part, explains the lower levels of millennial financial literacy.

Takeaways and Solutions

The research tells us that the millennial generation is not homogenous and falls into many distinct population subsegments experiencing different life stages.

While the oldest millennials are now approaching 40 — raising families, buying homes, and establishing their careers – the younger millennials are just starting down that path. Despite being a diverse, tech-savvy, better-educated, higher-earning generation, it's struggling to reach the "American Dream" more than any prior generation. There are formidable issues depressing millennial homeownership rates.

1. CHANGING DEMOGRAPHICS DRIVING A GAP IN HOMEOWNERSHIP

Along with the higher population numbers, this generation brings a higher-than-ever degree of racial and ethnic diversity. The higher share of minorities within this demographic is likely to lead to a reduced homeownership rate for this group. How can we as an industry help to bridge the homeownership gap?

Here's how Freddie Mac is solving for the problem:

→ Freddie Mac is establishing new programs to specifically address African American housing, financial capabilities and mortgage solutions for communities of color. We are prioritizing innovations that support our Equity in Housing mission and continue to search for opportunities to ensure that the industry's underwriting and valuation approaches are equitable.

→ Freddie Mac offers resources in additional languages to bridge the homeownership gap for all groups.

→ Freddie Mac is developing plans to further expand partnerships with organizations that lead the way to bring greater equality in housing.

Potential industry options to explore include the following:

- Increase outreach programs.
- Provide more targeted financial education programs.
- Increase awareness and better customize down payment assistance programs.
- Design new products with different repayment options.

2. WEAKER FINANCIAL LITERACY

Lower financial literacy is more common with millennials, even though more online resources are available. This raises the question of why these educational offerings haven't improved millennials' financial literacy. Creating partnerships across the housing industry's ecosystem to strengthen the financial literacy of these young adults is imperative. Poor money management skills can lead to excessive risk-taking, which weakens credit and savings just as this age group should be stepping into homeownership.

Here's how Freddie Mac is solving for the problem:

→ Freddie Mac CreditSmart® suite of financial and homeownership education offers a variety of resources in English and Spanish to educate homeowners and help housing professionals guide consumers.

→ Freddie Mac is partnering across the housing ecosystem to help connect borrowers with valuable resources like our Borrower Help Center network and Housing Counselor Resource Center.

Potential industry options to explore include the following:

- Create effective financial education apps aimed at tech-savvy millennials. Greater investment in education is necessary.
- Future potential homebuyers might benefit from increased outreach of housing professionals through class offerings in high schools, colleges and places of work.
- Lenders and real estate agents should be connecting borrowers with housing counselors who can provide guidance and serve as trusted advisors.

3. THE GIG ECONOMY IS HERE TO STAY

Millennials embrace the gig economy and, as a result, are shifting the dynamics of the labor market. In response to this shift, industry and policy changes are necessary to simplify and streamline access to the credit/mortgage origination process for non-payroll workers.

Here's how Freddie Mac is solving for the problem:

→ Loan Product Advisor® Asset and Income Modeler (AIM) for self-employed helps to reduce underwriting times.

→ We're actively pursuing projects that will expand policies to include gig income to be treated as regular income, to expand credit to gig economy workers.

Potential industry options to explore include the following:

- Expanded view of acceptable income streams.
- Creation of new innovative products serving this portion of population.

4. DOWN PAYMENT SAVINGS

Nearly half of millennial renters who say they want to buy a home have no savings set aside. While alternative down payment options exist, the fact remains that the share of millennials with savings accounts is alarmingly low. Even with the current economic downturn, the housing industry needs to find ways to encourage saving and make sure millennials understand all the down payment options available to them.

Here's how Freddie Mac is solving for the problem:

→ The Freddie Mac Home Possible mortgage and the Freddie Mac HomeOne℠ offer low down payment programs.

Potential industry options to explore include the following:

- There are a wide range of areas to explore, from digital wallet tools and down payment savings accounts with special interest rates, to matching deposits up to a certain amount.
- Lenders need to better educate potential borrowers on ways to raise down payment funds aside from savings.

5. AFFORDABLE HOUSING SHORTAGES HIT MILLENNIALS THE HARDEST

The shortage of affordable housing has hurt millennials more than any other segment of homebuyers. Freddie Mac estimates there are more than 400,000 "missing" households headed by 25- to 34-year-olds (households that would have formed except for higher housing costs). A limited supply of land, a shortage of skilled labor and increasing material costs are all contributing to higher prices and rents. Freddie Mac estimates that to meet housing demand, the U.S. housing market needs to supply more than 1.6 million units per year. Pivoting to more affordable construction to ease the supply problem is the best way for America's biggest generation to enter the market at prices they can afford.

Here's how Freddie Mac is solving for the problem:

→ Freddie Mac offers loan options that promote renovations and energy efficiency improvements like GreenCHOICE® and CHOICEHome® mortgages and CHOICERenovation® financing for fixing older homes and potentially widening the availability of affordable homes.

→ Freddie Mac offers manufactured housing choices.

Potential industry options to explore include the following:

- To bridge the gap between the current housing supply and expected millennial demand, housing construction will need to accelerate and offer more affordable options.
- Local governments should consider relaxing excessive regulations and restrictive zoning policies.

METHODOLOGY

Data Sources and Methods

This playbook leverages data from several sources: The Current Population Survey (CPS), The American Community Survey (ACS), Home Mortgage Disclosure Act (HMDA) data reporting, and Freddie Mac Acquisitions data. CPS is a monthly survey of about 60,000 U.S. households conducted by the United States Census Bureau. ACS is an annual survey by the U.S. Census Bureau sent to approximately 3.5 million addresses. HMDA is a federal law that requires certain financial institutions to provide mortgage data to the public, and it covers approximately 85-90% of the mortgage market. Freddie Mac loan-level acquisition data includes all mortgages securitized by the entity. Additionally, this playbook examines data from the New York Federal Reserve bank, American Housing Survey, Freddie Mac and third-party surveys.

Data Advantages and Limitations

While both U.S. Census Bureau surveys produce socioeconomic and demographic estimates for the U.S., there are key differences between them. The ACS sample consists of around 3.5 million housing units but is only updated annually. The CPS sample size is about 60,000 housing units but is updated monthly. Therefore, the ACS has a larger sample size, but the CPS is timelier. Most of this playbook uses CPS data to provide timely demographic and housing characteristic estimates.

Due to certain data inconsistencies, this playbook mainly focuses on three generations: millennials, baby boomers and Gen Xers, and excludes the Silent generation.

We found the Census Bureau and other federal agencies often publish data in 10-year age brackets and as a result many studies approximate millennials in the static age bracket of 25-34. One of the main data limitations to this study is the 10-year bracket we leveraged in our analysis of student debt share or market mortgage originations does not encompass all millennials (23-38 in 2019), and therefore direct comparisons to other publications are not always possible.

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