

MORTGAGE INDUSTRY INSIGHTS



MORTGAGE INDUSTRY INSIGHTS TO
NAVIGATE A CHANGING MARKET

ISSUE 02 | 2020



LETTER FROM THE EDITOR

Welcome to the second issue of *Sightline*—insights and perspectives on trending topics in the mortgage industry. Inside, we hope you'll find the data, research and information you need to help you navigate the ever-evolving housing ecosystem.

Some of the latest trends impacting mortgage professionals in today's industry include new findings on borrower demographics such as Gen Z's attitudes toward homeownership, how lenders are prioritizing mortgage technology and insights about affordable housing challenges and opportunities.

Amid today's fast changing landscape, our goal is for this issue of *Sightline* to help you keep your finger on the pulse of changes—so you can focus on your work at hand.

Sincerely,

A handwritten signature in black ink, appearing to read 'Danny Gardner', with a long horizontal flourish extending to the right.

DANNY GARDNER

Senior Vice President

Affordable Lending and Interim Head of Sales
Freddie Mac Single-Family

CONTRIBUTORS



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Senior Vice President, Interim Head of Single-Family Business

Recently named interim head of the Freddie Mac Single-Family business, Donna Corley manages the company's relationships with Seller and Servicers, the performance of Freddie Mac's guarantee book of business, and all sourcing, servicing, risk management and business operations.



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Mike Dawson is responsible for managing affordable products and offerings, strategies, research, and regulatory and conservatorship activities associated with broadening access to credit.



DANNY GARDNER

Senior Vice President, Affordable Lending and Interim Head of Sales

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. He was recently named Interim Head of Sales for Single-Family.



PHIL GUTH

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Phil Guth is responsible for developing, growing and managing new and existing business opportunities with small- to mid-size clients, third party service providers, and relevant trade associations. In addition, he oversees the client relationship management function, Servicing Released XChangeSM, and seasoned portfolio acquisitions and execution options.



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eMortgage Program Lead

Raj Penugonda is responsible for managing and improving the eMortgage program. In addition to identifying and managing internal strategic initiatives, he works closely with industry stakeholders.



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Cindy Waldron is responsible for driving business solutions for the Single-Family business and its clients by leveraging research, data and analytics to better understand the evolving needs of affordable and underserved markets.

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SECTION 01:

BORROWER OF THE FUTURE

HIGH TECH VS. HIGH TOUCH

Although digital expectations are on the rise among borrowers, the way they communicate with lenders is transforming — increasing in frequency across a variety of channels.



OF MILLENNIAL BORROWERS
reported frequently meeting with
their lenders in person.

Source: Ellie Mae 2019 Borrower Insights Survey

RAISING DOWN PAYMENT CASH: PERCEPTION VS. REALITY

Lenders Can Help Borrowers Achieve Homeownership Goals by Overcoming Down Payment Misperceptions

Funding a down payment has always been a barrier to homeownership. Homebuyers recently have pursued more unconventional ways to raise down payment cash and put down less than 20 percent, according to [Freddie Mac research](#).

For many prospective borrowers, the upfront costs of purchasing a home, including down payments and closing costs, are commonly cited as a primary obstacle to homeownership.



⊗ PERCEPTION	✓ RESEARCH SHOWS
Borrowers are required to put 20 percent down on a house.	13% The average down payment for homebuyers overall was actually 13 percent.
	7% For first-time homebuyers , the average down payment was seven percent.
Most homebuyers use personal savings to finance their down payment.	↓9% While savings is a common source of down payment funding, a National Mortgage Database (NMDB) survey shows the percentage of respondents using savings dropped nine percent (since 2013).
	23% Twenty-three percent of NMDB survey respondents reported funding their down payment with a gift or loan from friends or family.
Saving for an adequate down payment can take a significant amount of time.	NEARLY 1,300 Nearly 1,300 state agencies and housing finance agencies offer down payment assistance.

* The NSMO is a component of the National Mortgage Database (NMDB®) program managed by the Federal Housing Finance Agency (FHFA) and the Consumer Financial Protection Bureau (CFPB). Findings are based on a sample of about 6,000 mortgages per quarter from loans newly added to the NMDB.

PERCENTAGE OF RESPONDENTS USING DIFFERENT SOURCES FOR THE DOWN PAYMENT*

Year	Savings, inheritance, retirement account, other assets	Proceeds from the sale of another property	A second lien, home equity loan, or home equity line of credit	Gift or loan from family or friend	Seller contribution
2013	79%	23%	0%	23%	15%
2014	75%	25%	2%	22%	16%
2015	73%	28%	4%	22%	17%
2016	70%	31%	4%	23%	16%

*Totals do not sum to 100 because respondents cited overlapping sources of funds.



Down Payment Assistance and Resources

Assistance programs support mostly moderate- to low-income borrowers, including first-time homeowners or buyers who haven't owned residential property in the last three years.

As fewer homebuyers used savings for their down payments, the number of people who put money down with assistance from nonprofit and government agencies doubled, with 10 percent of all mortgage holders having checked it as a funding source in 2016.

Who Do Assistance Programs Support?

- Moderate- to low-income borrowers
- First-time homeowners
- Buyers who haven't owned residential property in the last three years



Promoting the Opportunity of Homeownership

The “20 percent down” misperception can sideline potential borrowers who may qualify for a mortgage today or in the near future. And while a down payment of less than 20 percent requires mortgage insurance, which will increase monthly payments, a lot of aspiring buyers aren’t aware of different ways they can afford a home, including options for [other mortgage products](#) requiring qualified borrowers to put as little as three percent down.



HOW CAN HOUSING PROFESSIONALS HELP?

Offer Homeownership Education

Housing professionals can provide education and resources to educate around down payments and implications to homeownership:



The importance of credit.



The homebuying and mortgage process.



Solutions to help borrowers easily identify down payment assistance programs.



How to stay in their current homes in the face of adversity.



The responsibility of homeownership.

Teach Borrowers About Down Payment Assistance Options

Ease the path to homeownership by communicating down payment assistance and options that remove some of the barriers for low- to moderate-income borrowers. [Freddie Mac's Home Possible®](#) mortgage helps housing professionals expand their market prospects while providing opportunities for more borrowers to realize the milestone of homeownership by offering:



A low three percent down payment option.



Multiple qualifying options.



Flexibility to address common challenges.

GEN Z IS CONFIDENT ABOUT BUYING HOMES

New Research Reveals How Gen Z Really Feels About Homeownership

Generation Z is upbeat about homeownership. So, how can lenders and other mortgage professionals better understand Gen Z? A recent [Freddie Mac survey](#) of young people ranging from 14 to 23 years old reveals some of the attitudes and behaviors of this up and coming generation of borrowers.



WHO IS GEN Z?

- Ages 9-23
- Estimate being able to buy their first home by age 30
- Nearly half see student debt as a homeownership obstacle
- Housing Preferences:
 - Medium-sized single-family homes
 - Suburban communities
 - Regions with reasonable commutes

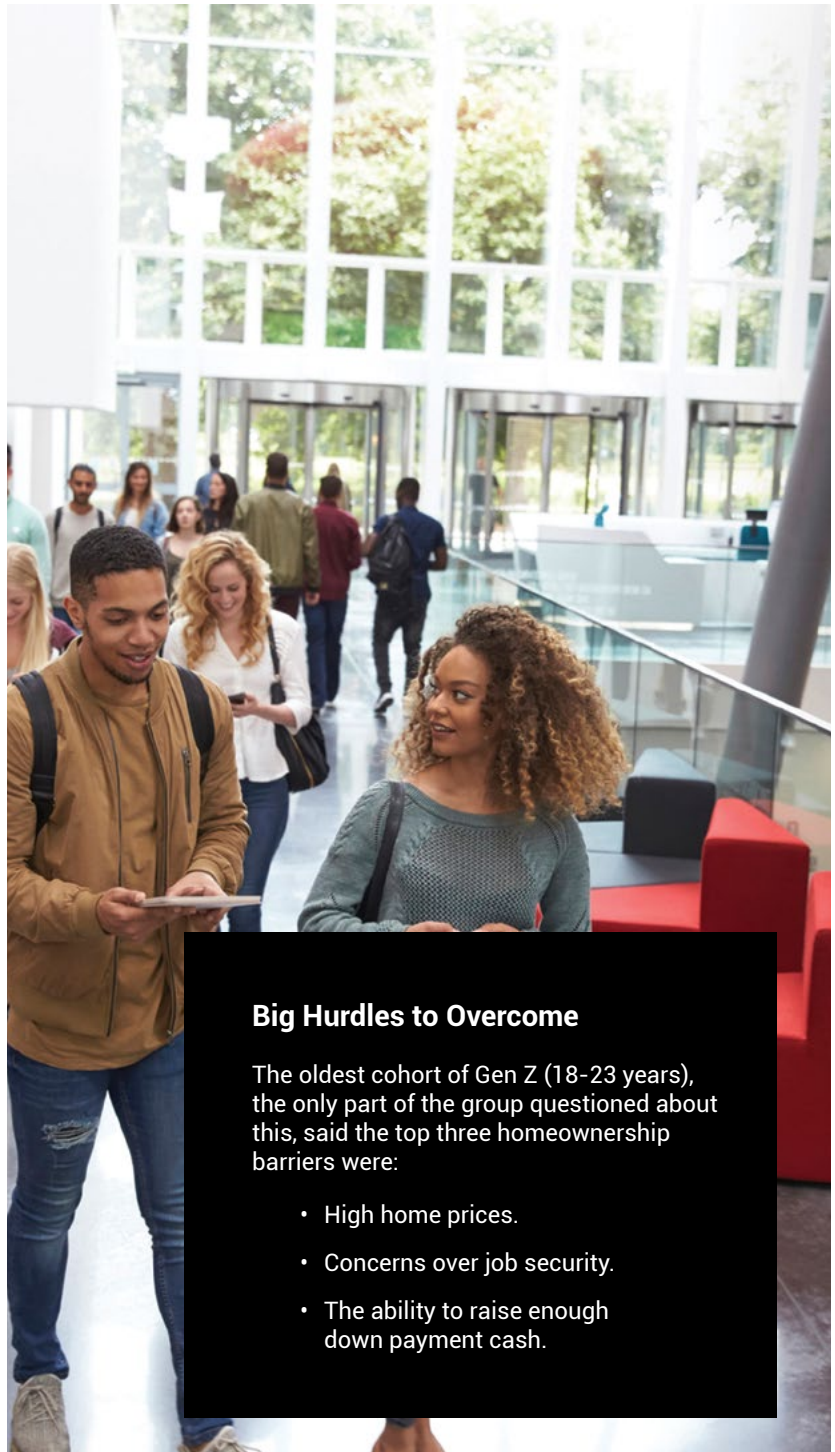


MORE THAN 85%

Overwhelming Majority of Gen Z Want to Own a Home

More than 85 percent of the roughly 1,500 young people questioned—who ranged from 14 to 23 years of age—want to own a home.

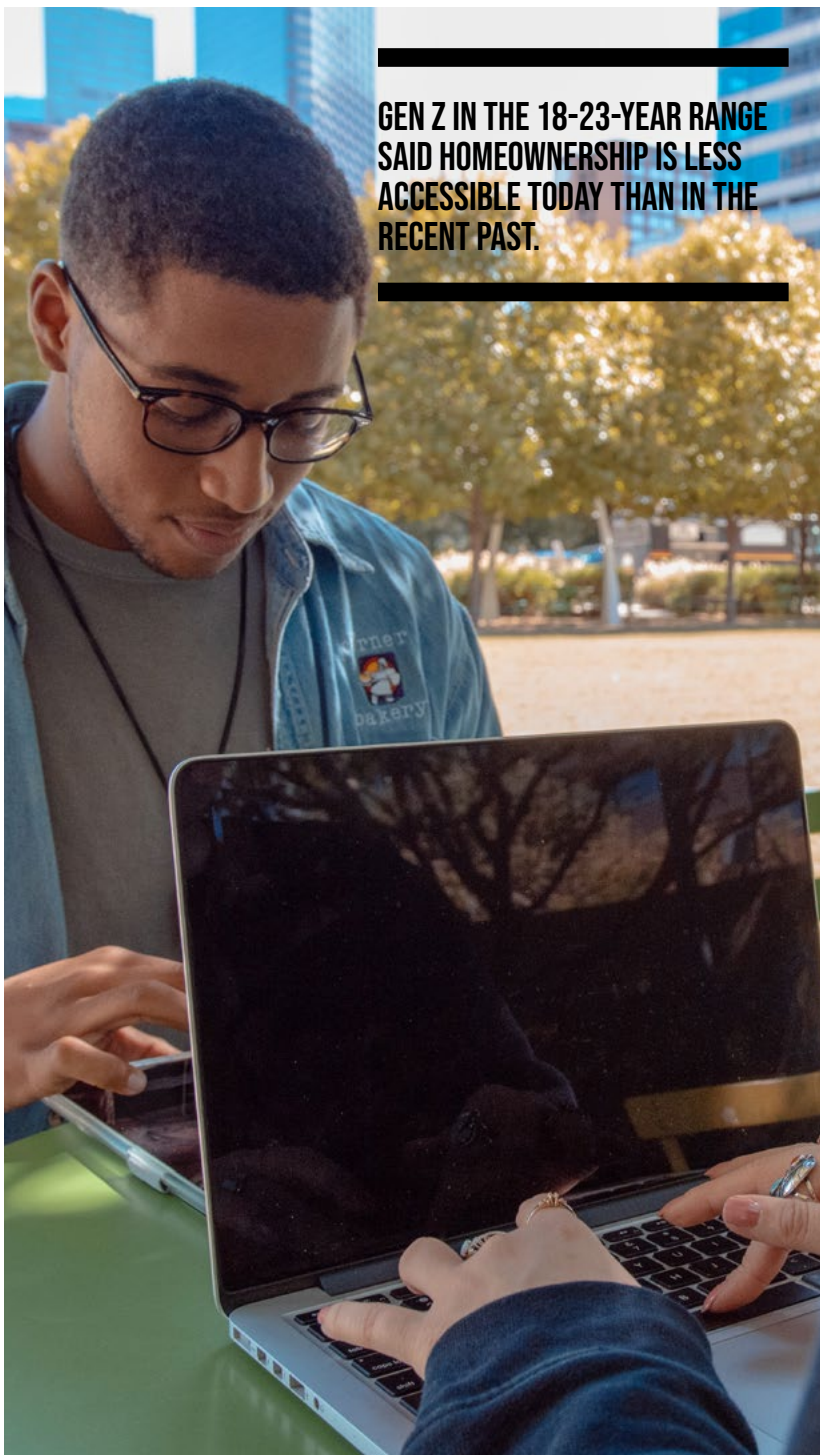
Of this group, about 90 percent said it was somewhat to very likely that they'd buy a home at the median age of 30. That's three years ahead of the 33-year median age of today's first-time homebuyer.



Big Hurdles to Overcome

The oldest cohort of Gen Z (18-23 years), the only part of the group questioned about this, said the top three homeownership barriers were:

- High home prices.
- Concerns over job security.
- The ability to raise enough down payment cash.



**GEN Z IN THE 18-23-YEAR RANGE
SAID HOMEOWNERSHIP IS LESS
ACCESSIBLE TODAY THAN IN THE
RECENT PAST.**

Gen Z Mixed on Impact of Student Debt

Student debt ranked fifth across the entire group surveyed, just below the lack of an established credit history. However, it was cited as a major obstacle for nearly half of respondents who plan to pay for college with a student loan.

Suburbia Over City Living

Gen Z across all demographics said they would prefer to buy medium-sized single-family homes in the suburbs. They share other homeownership preferences similar to millennials, such as having reasonable commutes and living in areas with low crime rates. And like previous generations, nearly 85 percent or more of Gen Z survey respondents equated homeownership with success, pride, financial stability and security as well as independence.

Bright Futures Ahead

Gen Z expressed confidence in their futures – and homeownership appears to be part of a broader set of objectives. In fact, two-thirds of these teens and young adults want to pursue college and graduate degrees, and most of them plan to marry and have children, saying they'll derive happiness as adults from close relationships and enjoyable work.

Survey Methodology:

This online survey was conducted between July 12–24, 2019, using the Ipsos KnowledgePanel®, a probability-based online panel of Americans. Ipsos conducted an online survey of 1,531 American teenagers and young adults—ages 14 to 23—who are members of the generational cohort known as "Generation Z" (Gen Z). These data were weighted and scaled. The margin of error for the total sample is +/-2.5 percentage points.

KEY OPPORTUNITIES FOR BUILDING THE FUTURE OF HOME



THREE FACTORS IMPACTING HOUSING AVAILABILITY

1. Sluggish New Home Construction

Compared with 1980-2016 annual averages, construction of single-family homes was down 13% across the country.

Regions with the largest gap between housing demand and supply of new construction homes:

- Western metropolitan regions
- Southern metropolitan regions

2. America's Aging Housing Inventory

- Nearly 80% of America's housing inventory is 20+ years
- Of those homes, 38% were built before 1970
- Areas hit the hardest by aging housing:
 - California
 - Midwest
 - Mid-Atlantic
 - Northeast

3. Seniors Are Staying in Their Homes Longer

- Seniors born after 1931 are staying in their homes longer
- The result?

Through 2018, 1.6 million homes have been held back from the market. That's one year's typical supply of new construction





HOW CAN HOUSING PROFESSIONALS HELP?

Help Borrowers Overcome Renovation Myths

1.7 million older housing units were demolished and removed between 2009 and 2016.

According to the [National Association of REALTORS®](#), if those homes had been renovated, available housing inventory would have more than doubled by 2017.

Although renovating older homes can help borrowers solve for aging housing and lack of availability, many think renovations require cash financing. But homeowners with little or no equity or extra cash have more options than they may think. [Dispel the perception of cash-only renovation financing](#) through borrower education around alternatives.

Source: Zillow: The Silver Tsunami

Prepare for a Flood of Available Owner-Occupied Housing

According to [Zillow research](#), when Baby Boomers do begin leaving their homes, it could impact housing stock, with retirement destinations experiencing the highest turnover.

If the number of future retirees choosing to make common retirement destinations their home doesn't coincide with past generations and local demand, some regions may see a surplus of available housing.

Top Ten Regions with the Most Housing Expected to be Released into the Market by Seniors:

- | | |
|-----------|---------------|
| 📍 Tampa | 📍 Knoxville |
| 📍 Tucson | 📍 Pittsburgh |
| 📍 Miami | 📍 Cleveland |
| 📍 Orlando | 📍 Albuquerque |
| 📍 Dayton | 📍 Greensboro |



REAL ESTATE PROFESSIONALS: BUYING PROCESS ADVISORS TO BORROWERS



Partnering with Real Estate Pros is an Opportunity for Lenders

Learning how best to finance a home is difficult work with no clear starting point or set process, so it's not surprising that first-time buyers put it off.

More renters looking to purchase a home in the next two years start the process by researching the areas where they want to live or looking at houses in person, according to a recent [Freddie Mac survey](#). Far fewer of them had spoken to a mortgage lender or taken steps to get preapproved or prequalified for a loan, the survey found.

As potential financing challenges at the end of the homebuying process can often scuttle a deal at the last minute, lenders should partner with real estate professionals to educate potential borrowers at the onset of the mortgage process.



HOMEBUYING PROCESS

According to a Freddie Mac survey, more renters looking to purchase a home in the next two years start the process by:

39% Researching the areas where they want to live.

37% Looking at houses in person.

Far fewer of them had:

12% Spoken to a mortgage lender.

12% Taken steps to get *preapproved* for a loan.

9% Taken steps to get *prequalified* for a loan.

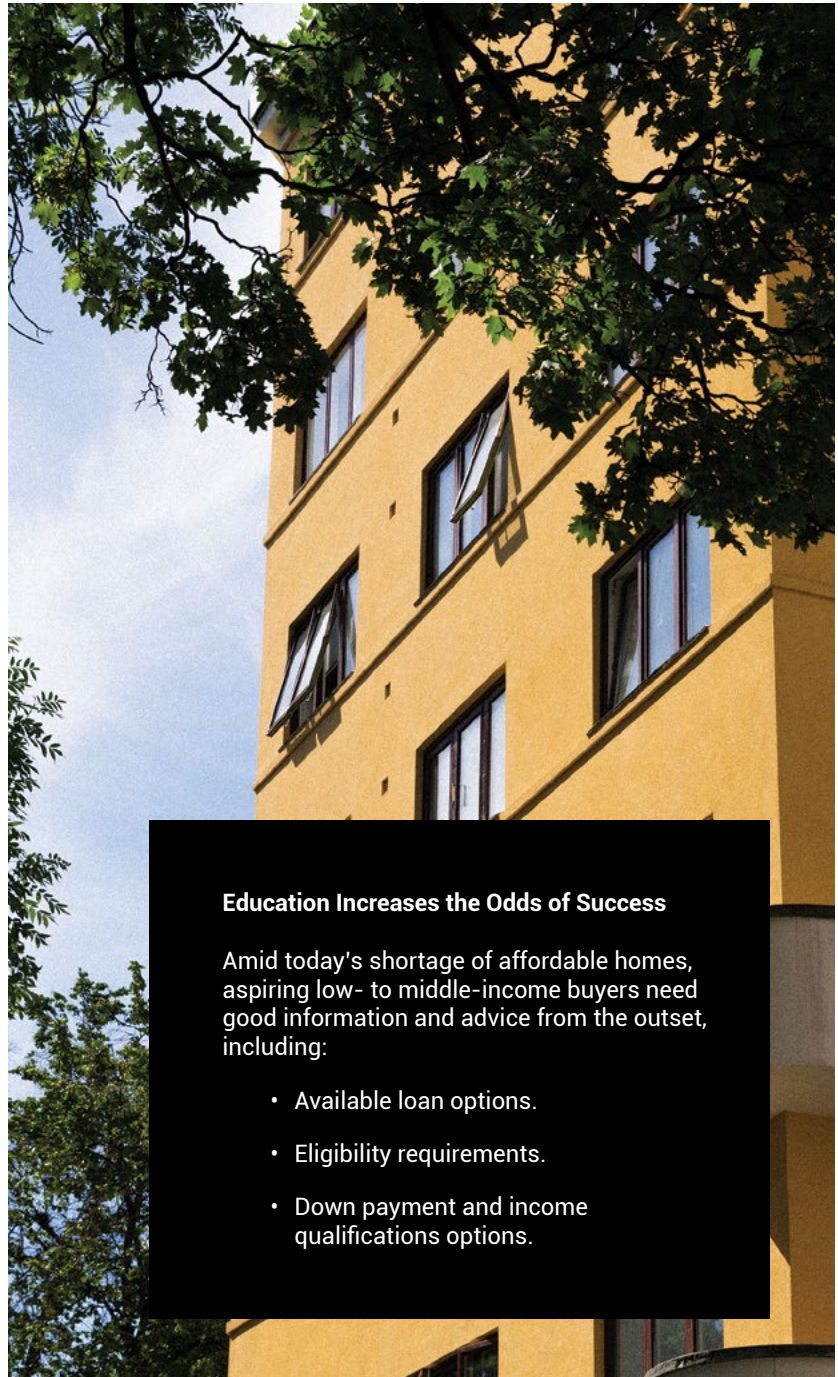
Using Industry Connections to Support Potential Homebuyers

Forty-one percent of homebuyers in 2019 worked with real estate agents or brokers recommended to them by friends or family, and 75 percent of them worked with the first one they met, according to [a study](#) by the National Association of REALTORS® (NAR).

Given these statistics, coupled with the fact that real estate professionals are the first point of contact for aspiring homebuyers, real estate professionals can use their network to connect clients with the right loan officers or housing counselors. This kind of directional support is particularly important for low-income buyers who are often far behind the starting line, based on the survey's findings that:

Some 16 percent of low-income renters are saving or have saved for a down payment, versus 34 percent of middle-income renters.

Eight percent of low-income renters seeking a home are very confident in the overall homebuying process.



Education Increases the Odds of Success

Amid today's shortage of affordable homes, aspiring low- to middle-income buyers need good information and advice from the outset, including:

- Available loan options.
- Eligibility requirements.
- Down payment and income qualifications options.

SECTION 02:

TECH AND INNOVATION

MORE DIGITAL, END-TO-END

Industry leaders and disruptors are moving rapidly to digitize customer-facing and back-office processes.



OF LENDING EXECUTIVES
surveyed say digitization is
transforming key mortgage
processes.

Source: *Forbes Insights Digital Mortgage Report*

GOING TO NEW DEPTHS WITH EMORTGAGES

Electronic Originations Have Grown Exponentially. What Does that Mean for Mortgage Professionals?

Although eMortgages have been around for 15 years, the industry hasn't shown much of an appetite for closing loans electronically and originating eMortgages. But that sentiment is changing.

A Growing Appetite for eMortgage Origination

- In the first 10 months of 2019, eMortgage originations increased more than 450 percent.
- January – October 2019: 95,458 eMortgage originations.
- In 2018: 16,950 eMortgage originations.

Source: MERS eRegistry

Meeting Client Demands with End-to-End Digital Loan Closing

- Half of borrowers surveyed said they preferred an online option to review and sign loan documents.

Source: [PWC's Home Lending Experience Radar 2018 report](#)

- More than 60 percent of respondents cited closing on a loan more quickly as the top reason for wanting an end-to-end digital process.

Source: [Ellie Mae's 2019 Borrower Insights Survey](#)



UNDERSTANDING THE DIFFERENCE

eMortgage, Hybrid eClosing, Complete eClosing, Remote Online Closing

An **eMortgage** is a mortgage with an electronic promissory note and other electronic closing documents. Most eMortgage originations are done by hybrid e-closings but purer versions exist:

Hybrid eClosing

Borrowers sign some of the loan documents electronically and wet ink sign remaining loan documents in the physical presence of a notary.

Complete eClosing

A borrower signs all loan documents electronically in the physical presence of a notary.

In a growing number of states, borrowers can **eClose** their loans by signing documents electronically via a secure video hookup with a remotely located notary who digitally stamps the loan documents. This eClosing process is called a "remote online closing."





THE BONUS OF PAPERLESS

Beyond improving the consumer experience, eMortgages replace a paper process with a digital one, slashing document processing and handling costs. For starters, lenders pull up digital notes and other electronically signed documents instead of paying settlement agents to mail paper copies of the documents.

Funding and Delivery Transformed

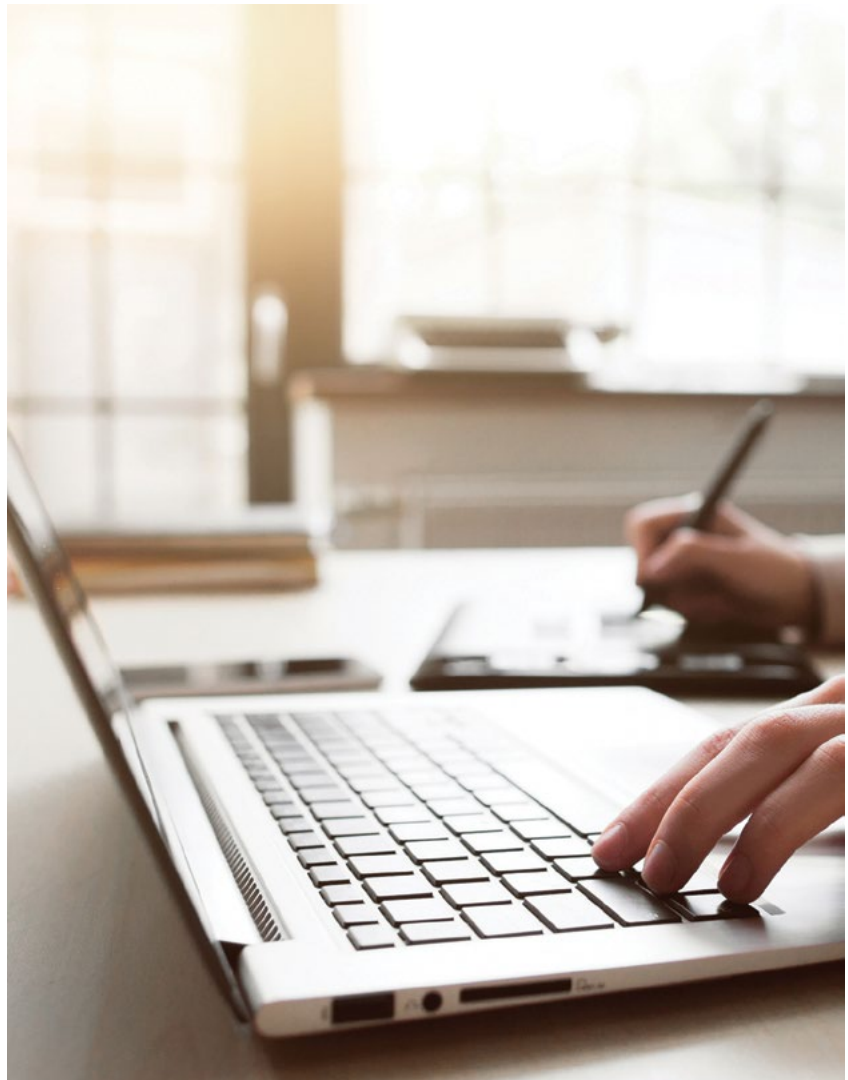
The technology enabling eMortgages can drastically collapse investor delivery and funding times. A lender can transfer an electronic note and other electronic closing documents in seconds, versus the one to two days it usually currently takes.

Certification and funding happen just as quickly, shaving off another two to four days. Some lenders report saving four to six days on delivery time, fast-tracking turnaround on warehouse lines and bolstering liquidity.

Digitally embedded loan data always travels with an eMortgage, as it changes hands among stakeholders. Without the need for manual entry, loan data quality stands to improve while employees pivot to more critical responsibilities.

Growing Support

With the benefits of eMortgages squarely in focus, **some 35 states have passed laws to support eNotarization**, allowing notaries in these jurisdictions to witness closing documents. Also, **more than 2,000 counties** covering close to 85% of the country's population allow for registering mortgages electronically, or e-recording.



WITH ECLOSINGS, THE PROCESS STOPS AUTOMATICALLY IF THERE'S ANY MISSING SIGNATURES OR DOCUMENTS, SAVING THE LENDER AND SETTLEMENT AGENT TIME ON THE BACK END. THE RESULTING ELECTRONIC AUDIT TRAIL ALSO MAKES IT EASIER FOR LENDERS TO PROVE REGULATORY COMPLIANCE.

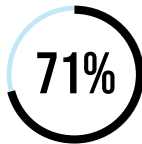
INNOVATION PREDICTIONS IN THE MORTGAGE INDUSTRY

Why Are Credit Union and Small- to Mid-Size Lenders Prioritizing Mortgage Digitization?

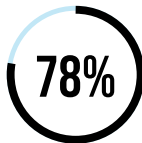
Credit union and small-to mid-size bank leaders predict the importance and progression of digitization in the mortgage process. And according to a Forbes Insights survey, they're aggressively pursuing digitization.

Innovation and Cost Reduction

Cost reduction is a priority for credit union and small-to mid-size banker leaders.



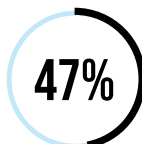
of **small-to mid-size bank leaders** surveyed agree or strongly agree that they're aggressively pursuing digitization.



of **credit union leaders** surveyed strongly agree that they're aggressively pursuing digitization.



of **small-to mid-size banker leaders** surveyed believe digitization will reduce mortgage initiation costs by 26 percent or more.



of **credit union leaders** surveyed believe digitization will reduce mortgage initiation costs by 26 percent or more.

WHAT'S DRIVING THE FOCUS ON DIGITIZATION AND HOW DO INSTITUTIONS OF ALL SIZES MEASURE UP?

 Focus of Digitization:	Large Bank	Regional / Super Regional	Small- to Mid-Size Lenders	Credit Union
 Reduce costs / improve efficiency	35%	27%	33%	39%
 Improve customer experience	36%	35%	27%	31%
 Market share growth	17%	23%	22%	10%
 Stay ahead of the competition	10%	14%	16%	18%



WHAT ARE SOME OF THE BARRIERS TO DIGITIZATION?	HOW ARE SOME INSTITUTIONS ADDRESSING DIGITIZATION CHALLENGES?
 Insufficient resources	 Outsourcing processes to external providers
 Internal resistance to change	 Developing new process technologies internally
 Functional and industry silos	 Tapping an external consultant for help
 Leadership buy-in	 Appointing an internal product champion
 Difficulty attracting talent	 Collaborating with industry groups

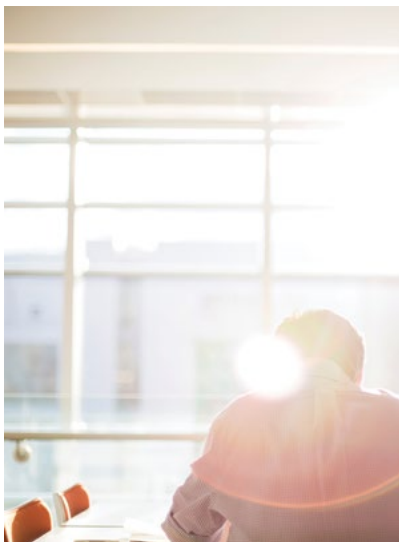


DIGITAL PREDICTIONS

It's obvious that digitization is transforming key processes across the mortgage industry. But as technology evolves and client expectations transform, what's top of mind for other mortgage professionals like you?

Why is the C-Suite Prioritizing Innovation?

According to a Forbes survey, the majority of executives agree that digital integration is happening in the very near future. How do specific roles across the C-suite see automation, technology and digital processes impacting the future of mortgage lending?



CHIEF TECHNOLOGY OFFICERS

PREDICTION: Technology + data = reduced human error and fraud.

71% strongly agree that the use of technology, such as artificial intelligence, in conjunction with trusted independent data sources, will reduce the potential for human error or fraud.

CEOS AND MANAGING DIRECTORS

PREDICTION: Greater automation will reduce origination costs.

95% agree or strongly agree that greater automation will dramatically reduce mortgage origination costs, decision-making, compliance and quality and reducing risk.

CHIEF INFORMATION OFFICERS

PREDICTION: Industry leaders will provide more than just loans.

82% agree or strongly agree that industry leaders will provide more than just loans, instead working closely with their customers to develop a wide range of complementary value-added products and services.

CHIEF MARKETING OFFICERS

PREDICTION: Digital processes + analytics = better decisions.

89% agree or strongly agree that digital processes and advanced analytics tools in the mortgage industry will lead to improved decision-making and security and better outcomes for borrowers.

HOW DO YOU STACK UP?

Whether marketing, sales, compliance, servicing or underwriting, the perception various mortgage professionals have regarding current efforts and progress differs based on their role at an institution.



YOU PUT TECH INTO ANY INDUSTRY AND YOU CREATE MORE EFFICIENCY, DRIVING COSTS DOWN WHILE IMPROVING SERVICE. TECHNOLOGY IS HELPING US TO GROW.

Mat Ishbia
CEO
United Wholesale Mortgage (UWM)



DIGITAL OUTLOOK DIFFERS BASED ON JOB FUNCTION

Client-Facing Mortgage Professionals

45% of marketing, sales and client-facing mortgage professionals surveyed agree or strongly agree their firm is aggressively pursuing digitization.

PROGRESS: Only **31%** of client-facing mortgage professionals characterize their progress as "industry leading."

Back Office

45% of underwriting, servicing, compliance and back office mortgage professionals surveyed agree or strongly agree their firm is aggressively pursuing digitization.

PROGRESS: Only **25%** of back office mortgage professionals characterize their progress as "industry leading."

Information Technology

60% of information technology (IT) mortgage professionals surveyed agree or strongly agree that their firm is aggressively pursuing digitization.

PROGRESS: Only **28%** of IT mortgage professionals characterize their progress as "industry leading."

Source: [Forbes Insights – Digital Mortgages: How Leaders Are Harnessing Tech](#)

CA·PA·BIL·I·TY SCOUT·ING

verb: to identify, collaborate and leverage financial technology vendors in order to address evolving business needs.

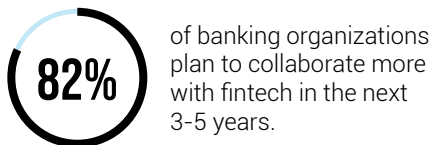
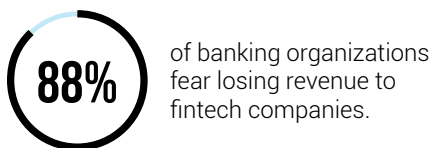
Mortgage institutions continuously look for ways to create efficiencies and reach more borrowers in an increasingly digital world. As more business and social interactions happen online, the industry is focused on technology enhancements and innovations that reduce operating costs and improve the customer experience.

However, many lenders struggle to keep pace with the ever-changing, emerging technology marketplace. The ability to quickly and effectively identify, collaborate and leverage financial technology (fintech) vendors is critical to address evolving business and borrower needs.

Scouting is new to many organizations. But, while many organizations acknowledge the need to scout and collaborate with emerging technology providers, navigating the ever-growing marketplace can be daunting.

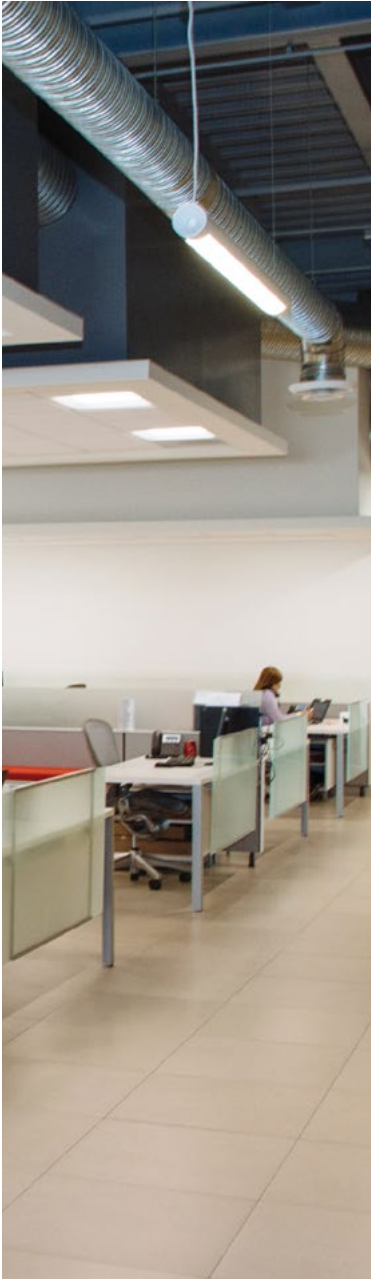
Investors Are Taking Notice As Technology Reshapes the Financial Industry

By December 2018 global venture capital fintech investment was up \$1.8 billion from 2011, according to [McKinsey & Company](#).



Source: [pwc](#) - *Blurred lines: How FinTech is shaping financial services*





6 CONSIDERATIONS FOR BUILDING A SUCCESSFUL INNOVATION SCOUTING STRATEGY

1 Build Your Business Case Internally

Develop a compelling plan that explains how the benefits and outcomes of scouting support the organization's broader strategy.

2 Use Metrics That Make Sense

It is important to measure success using the right metrics. Look at contact conversion to partnerships instead of return on investment (ROI) or direct revenue contribution to gain a more relevant view of success.

3 Ensure Scouting Targets are Aligned with Existing Issues

Don't be seduced by vendors' promises and flashy new technology. If the capability is not relevant to business partners, it will fall flat, and impact the reputation of the scouting team.

4 Communicate Consistently

Find ways to share information; for example, start a blog or host a lunch and learn. Making market knowledge accessible instead of a privilege is a quick win for any scouting team.

5 Invest in the Right People

A successful scout wears many hats, and often needs to understand emerging technologies, shifting business models, industry and organization challenges, partnership models, fintech strategy and cultural alignment.

6 Fill in Team Gaps and Continue to Upskill

To get a better handle around these issues, organizations should encourage internal education and supplement their team with high-potential employees that can fill gaps and learn quickly. Successful capability scouts have a clear understanding of emerging technologies, shifting business models, industry challenges, partnership models, fintech strategy and cultural alignment.

THE BEST CREDIT RISK MANAGEMENT STRATEGY: VERIFIED DATA

Working in the housing market can often be about big numbers. Millions of homes, billions of dollars, decades of monthly payments. But there's one area of Freddie Mac that is increasingly about a very small number. In fact, it's less than one percent.

It's true, less than one percent of loans Freddie Mac has financed over the last decade are currently seriously delinquent. This extraordinarily low number is the direct result of our company's sophisticated automated underwriting system (AUS) Loan Product Advisor®, and its ability to help lenders assess the risk of borrower mortgage default.

Loan Product Advisor is the backbone of our company's safety and soundness and allows us to make good on our commitment to help lenders promote responsible lending in primary mortgage markets — creating millions of new creditworthy homeowners. We are continually working to further leverage our technical expertise to try and bring that seriously delinquent number down ever further.

How Do We Do It?

It starts with the recognition that qualifying for a mortgage takes hard work and a serious commitment on the part of the borrower. Even the most diligent prospective homebuyer may struggle with inconsistent language used across different forms, may have some missing records and may provide lenders with information



that is difficult to accurately transcribe. For lenders, this means that borrower-supplied information can sometimes pose challenges.

At Freddie Mac, we're tackling these challenges by leveraging advanced data analytics so our clients — lenders across the country — can more fully digitize the application process. Instead of asking for documents, we're enabling lenders to obtain a borrower's permission to directly access his or her digital data straight from the source — and then using it to accurately determine capacity to repay the mortgage. This allows lenders — and ultimately Freddie Mac as the loans' purchaser — to manage risk using verified source data at the very beginning of the mortgage process so they can responsibly provide mortgages to creditworthy borrowers.

Loan Product Advisor asset and income modeler (AIM) is Freddie Mac's solution that helps automate

the manual lender process of assessing borrower assets and income to reduce documentation requirements and more broadly speed up loan origination and underwriting processes. AIM leverages the expertise of third-party service providers to access borrower asset and income data to help determine a borrower's capacity to repay a loan. It also helps deliver process efficiencies and allows for potential relief from Freddie Mac's enforcement of certain selling representations and warranties related to assets and income.

The importance of AIM cannot be overstated. Verified data greatly reduces the chance of manual data input errors, helps remove subjectivity from capacity assessment and facilitates the embedding of Freddie Mac's investor risk metrics in that calculation every time. It reduces the opportunity for fraud or inaccuracy. And it's faster for lenders, easier for borrowers and provides greater transparency for investors.

Additionally, seeing a history of regular direct deposits provides greater insight into a borrower's ability and capacity to handle a mortgage payment, as does looking to see what's left over at the end of the month. Looking for consistency in level of income across recent paystubs or a W-2 form also remains critically helpful in assessing a borrower's ability to repay. And AIM is evolving to take advantage of this data. Our most recent AIM enhancement assesses income by combining paystub data with direct deposits from a service provider report and compares it to the loan data submitted to Loan Product Advisor.

In short, verified data helps our lenders quickly and efficiently serve borrowers in a way that minimizes underwriting risk to lenders and Freddie Mac, while helping families achieve sustainable homeownership.

In fact, AIM has even greater utility in reducing the level of risk the company faces by enhancing our pioneering credit risk transfer program, through which we transfer a significant amount of risk on single-family mortgages outside the company to private investors and (re)insurers. Here too, verified data increases the quality and transparency of the loans we guarantee, which is key in our ability

to transfer this risk. We recently surpassed \$50 billion in credit risk transfer on single-family loans we guarantee.

This isn't new at the company. Freddie Mac has been part of mortgage digitization for over a decade now (we began accepting electronic loan documents in 2006), and today we offer a number of services to help lender clients of all sizes bridge the digital divide free of charge. And the increasing use of verified data in the mortgage approval process is helping us keep that mortgage delinquency rate number extremely small. In fact, it's the smallest number we know.



VERIFIED DATA CAN HELP YOU:



Save time



Reduce costs



Accurately assess risk



Improve the experience



USING VERIFIED DATA WHILE MANAGING RISK



1 Secure access to data

Borrowers give lenders permission to directly access their financial data straight from the source.



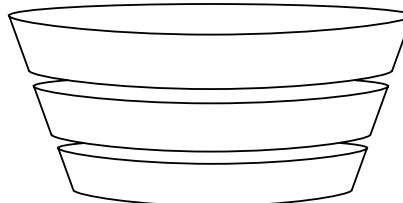
2 Speed up the process

Technology helps automate the manual process of assessing borrower assets and income.



3 Quickly assess creditworthiness

Lenders use borrower data to accurately determine capacity to repay the mortgage.



Understand the numbers



4 Responsible lending

Lenders are able to manage risk and responsibly provide mortgages to creditworthy borrowers.



5 Faster, easier and more transparent

Families achieve sustainable homeownership.

SECTION 03: INDUSTRY INSIGHTS

THE BENEFITS OF ENERGY- EFFICIENCY-RATED HOMES

Homes that demonstrate greater energy efficiency can command higher sales prices due to potential savings on utility bills.

3%-5%

On average, homes with better energy ratings sold for 3%-5% more than lesser rated homes.

Source: *Freddie Mac Whitepaper - Energy Efficiency: Value Added to Properties and Loan Performance*

ENERGY EFFICIENT HOME IMPROVEMENTS CAN INCREASE HOME VALUE



How Do Energy Efficient Renovations Impact Home Value?

As energy efficiency can provide homeowners with cost savings, these improvements can also lead to increased home values, according to [Freddie Mac research](#).

So how can housing professionals determine how to better incorporate the value of energy efficiency into mortgage underwriting practices?

WHAT'S THE REAL IMPACT OF INEFFICIENCY?

- The typical U.S. family spends **\$2,200 on energy bills each year**.
- Energy inefficiency often places a more significant burden on low- and moderate-income families.



INEFFICIENCIES ARE USUALLY ATTRIBUTED TO:



Poor insulation



Inefficient lighting fixtures



Air leaks



Outdated heating and cooling system



THE BENEFITS OF ENERGY EFFICIENCY-RATED HOMES

Energy efficiency ratings measure a home's energy consumption and how efficiently the home uses the energy it consumes.

+2.7% On average, rated homes are sold for 2.7% more.

+3-5% Homes with better ratings sold for 3%-5% more than lesser rated homes.

Homeowners with energy-rated homes – but higher DTI ratios – kept up with mortgage payments better than those with unrated homes.

Efficient Financing, Efficient Home

Beyond the impact on home values, mortgage professionals can connect the benefits of energy efficiency to mortgage underwriting practices. Homeowners and homebuyers typically finance these types of improvements through personal loans or other unsecured financing and credit cards which generally have less favorable terms than mortgage financing. This suggests that the market may be underserved and presents an opportunity.

New green solutions offer broad financing options that can help homeowners to:

- Finance energy and water efficiency improvements in an existing home.
- Pay off higher interest debt incurred from installing energy and/or water efficiency improvements.
- Purchase a home and finance future improvements in their mortgage.
- Combine energy efficiency home improvements with other low down payment products to purchase and settle on a house before improvements are complete.



WITH THE GREATER FLEXIBILITY AND UNDERWRITING GUIDANCE AVAILABLE NOW, LENDERS CAN BETTER ASSESS THE CONTRIBUTORY VALUE OF THE ENERGY EFFICIENT FEATURES TO THE PROPERTY, INCREASE LOAN ORIGINATIONS, EXPAND THEIR GREEN PRODUCT OFFERINGS, AND HELP FAMILIES BUILD EQUITY FASTER WHILE IMPROVING THEIR HOMES.

TRUE LIES: REINING IN REVERSE OCCUPANCY

How to Spot Reverse Occupancy Scheme Red Flags

Potential Indicators of Owner Occupancy

Reverse occupancy misrepresentation occurs when a borrower claims to be purchasing an investment property or non-owner-occupied home so they can use the rental income from the property to help them qualify for the loan.

Instead, the borrower occupies the home or one of the units as their primary residence, eliminating rental income without which the borrower may not have qualified.

There are many potential indicators that a borrower intends to occupy a property and not use it as a rental.



One indicator is the use of tax credits intended to provide qualified homeowners with a tax exemption on a primary residence. Through our investigations, we've found that some borrowers who obtained investment property loans also applied for those tax credits, implying they would occupy the properties securing those loans.

Another potential indicator is the type of insurance coverage obtained for these properties. Freddie Mac's Single-Family Fraud Risk (SFFR) team confirmed with insurance agents and Servicers that, for many of these loans, the coverage in place at origination was owner-occupied, not rental.

Servicers of these loans further confirmed that these borrowers maintained that same type of homeowner's insurance coverage for their purported investment properties since origination. In other instances, the borrowers changed insurance coverage shortly after closing. In fact, one borrower changed coverage from rental to owner-occupied within 10 days of closing.

We've also seen an additional alert to possible occupancy misrepresentation when many borrowers called their servicers shortly after closing and requested a change of their billing/ mailing address to the subject investment properties.

Borrowers Seeking Primary Residences

SFFR investigators have interviewed borrowers in connection with potential reverse occupancy misrepresentations.

While some borrowers recounted detailed conversations with their loan officers about the type of loan for which they were applying, others were not aware they had applied for investment loans.

Borrowers frequently stated that they had always intended to occupy the properties and reiterated that their loan officers knew it. One borrower even indicated that her loan officer

encouraged her to apply for an investment loan to get her loan approved.

While reverse occupancy isn't a new scheme, it still occurs – as recent SFFR investigations attest. Any time borrowers are qualified for loans they aren't truly eligible for, whether through misrepresented income, occupancy, insurance or something else, they create substantial risk to Freddie Mac and our lenders.



OWNER OCCUPANCY RED FLAGS:



Use of primary residence tax credits



Maintenance of owner-occupied insurance coverage since origination



Borrowers change coverage from rental to owner-occupied shortly after closing



Request for change of billing/ mailing address to investment property

IF YOU SPOT OR SUSPECT FRAUD, CONTACT THE FREDDIE MAC FRAUD HOTLINE AT 800-4FRAUD8.



SECTION 04: EVOLVING TRENDS

HOME AND RENTAL PRICES

Housing professionals have an opportunity to provide borrowers with the tangible benefits of homeownership as well as guidance and tools to help keep them in the market and make their search easier.

4X FASTER

In the past 60 years, home prices have increased 4X faster than income.

Source: A Timeline of Affordability: How Have Home Prices and Household Incomes Changed Since 1960

QUOTABLE MOMENTS FROM THE HOME STARTS HERE PODCAST

The *Home Starts Here* podcast is your connection to industry trends, insights and points of view on the mortgage market. [Listen and subscribe.](#)



Our drive to support our clients with what they're looking to achieve and the challenges ahead of them is what motivates us.



KEVIN KAUFFMAN

Senior Director, Loan Advisor Strategic Partnerships and Integration



Freddie Mac is simplifying the mortgage process for every part in the transaction, from our lender clients to the borrowers they serve.



RICK LANG

VP, Loan Advisor Strategy and Integration
Freddie Mac Single-Family



Even if we stopped innovation today, there's still so much in front of us that we could do as an industry over the next two to three years to **advocate and push adoption for lenders and borrowers.** Too many instances where lenders aren't fully committed, roll out these tools and instead of reducing costs, they increase costs because they are ordering services but haven't changed their process on the backend. **It starts at the lender entity level.**



RICK LANG

VP, Loan Advisor Strategy and Integration
Freddie Mac Single-Family





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*In the year ahead, we will continue to focus on fulfilling our mission, **practicing sound risk management and our Reimagine Servicing initiative**. Our strong client focus will not change.*



DONNA CORLEY

Interim Head of Freddie Mac
Single-Family Business

“

*I really want to focus on how we can make our customers more aware. How do we **identify the specific areas and populations where needs exist** and be more deliberate at how we drive those through stronger collaboration and initiatives to benefit families?*



DANNY GARDNER

SVP, Affordable Lending and Interim Head
of Sales, Freddie Mac Single-Family

“

*Post financial crisis, credit risk transfer has been a major focus for Freddie Mac and created several programs. The IMAGIN program provides an **alternative to traditional mortgage insurance**, while offering certainty and competitive pricing.*



MIKE REYNOLDS

VP, Credit Risk Transfer

MODERN MANUFACTURED HOMES: TRENDS FOR LENDERS TO KNOW

While there's no one solution to the housing affordability crisis, a manufactured home is one path to homeownership that is often overlooked. And more homebuyers are beginning to see the potential of manufactured houses as an affordable housing alternative.

But accessible, low-cost financing could be a barrier—fewer buyers of manufactured homes chose a mortgage to finance their homes versus other loan options, according to a recent Freddie Mac report.

Lenders who understand the nuances of buying and financing a manufactured home will be better equipped to help potential homebuyers find their way to an affordable option.

How Manufactured Homes Are Evolving

The perception of manufactured housing is shifting. Modern manufactured housing offers high-end finishes and quality construction.

As more homebuyers recognize the value offered by manufactured homes as an affordable housing option, here are some key trends for lenders to know:

Today's Manufactured Homes Received a Modern Makeover

The **stereotypes associated with manufactured homes** will likely continue to fade as the appeal

of creative floor plans, modern décor, quality construction, and affordability attracts a broad set of buyers. However, first-time and low- to moderate-income homebuyers have the most to gain. Consider that manufactured homes:

- Are about **35 to 47 percent** less expensive than site-built housing, according to a recent article by the Urban Institute.
- Offer lasting savings — **less than 25 percent** of manufactured homeowner households are cost-burdened, compared to more than 27 percent of all U.S. homeowners, according to the U.S. Census Bureau.
- Appreciate at rates similar to site-built housing, according to data from the Federal Housing Finance Agency (FHFA) **Manufactured House Price Indexes**.

Manufactured Homebuyers Are Making Different Financing Decisions

What drives manufactured homebuyer financing choices as well as their satisfaction with the process?

Manufactured homebuyers who finance their homes select either a mortgage or a personal property loan. To be eligible for mortgage financing, manufactured homes must be sited on land owned by the homeowner, titled as real estate and installed on **a permanent foundation**.

With a better understanding of how potential manufactured homebuyers

approach their financing, lenders can leverage new, **innovative affordable mortgage initiatives** for manufactured housing. Such programs offer conventional site-built financing for real-property factory-built homes that are built to the HUD code and have the features of a site-built home.

By partnering with manufactured home retailers, realtors and other housing professionals, lenders can play a vital role in expanding affordable homeownership.

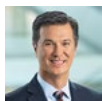


THREE AFFORDABLE HOUSING OBSTACLES TO OVERCOME

Housing affordability challenges are inhibiting the growth of homeownership, and only an industrywide effort can solve for them, according to a panel of experts organized by Freddie Mac and *National Mortgage News* who met recently to discuss affordability obstacles and potential solutions.



THE "STATE OF AFFORDABILITY" PANELISTS



Danny Gardner
SVP, Affordable Lending
and Interim Head of Sales,
Freddie Mac Single-Family



Julia Gordon
President, National
Community Stabilization
Trust



Mike Calhoun
President, Center for
Responsible Lending



Len Kiefer
Deputy Chief Economist,
Freddie Mac



\$1.6 TRILLION IN STUDENT DEBT

Student debt—which has surged to \$1.6 trillion from \$300 billion in the last dozen years—is holding back would-be buyers who can't manage loan payments and set aside enough savings to put toward a home.

1 Home Price Appreciation Vs. Wage Gains

The affordability crisis underscores a long-term macroeconomic trend occurring since the Great Recession: a persistent gap between rising home prices and slow income growth for most of the nation's workforce, especially for millennials, who make up the bulk of first-time homebuyers.

"This group has really been hit hard because they came of age during the Great Recession, the effects of which are persistent and long lasting," Kiefer said, "with research suggesting [millennials] will never over a lifetime match the income levels of [other generations]."

Anemic wage gains—versus the lack of desire—is why fewer younger adults today are buying homes, Calhoun said. "It merely reflects the reality of their financial circumstances."

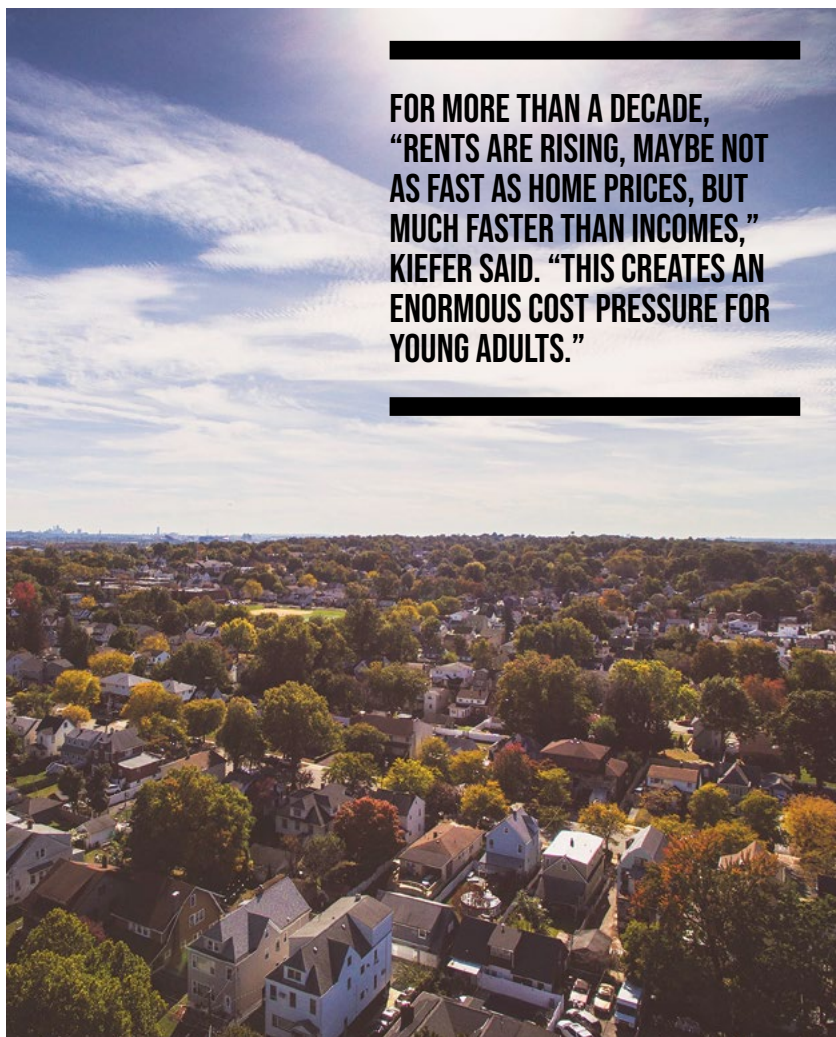
2 Student Loans Hold Back Aspiring Homeowners

This financial burden is a barrier for all potential millennial homebuyers, but especially borrowers in underserved communities whose parents can't help them to raise down payment cash, Gordon said.

3 Paying Rent and Saving for the Future

Another factor in the affordability equation is the high cost of renting, which undermines renters who are trying to build savings to buy a home.

For more than a decade, "rents are rising, maybe not as fast as home prices, but much faster than incomes," Kiefer said. "This creates an enormous cost pressure for young adults."



Industrywide Problem Solving and Signs of Progress

Rehabbing and preserving existing housing stock is one area on which the housing industry has collaborated more successfully, Gordon pointed out. A nationwide coalition of realtors, community housing organizations, policy advocates and lenders have made progress in restoring inventory in blighted neighborhoods and preventing deterioration of more housing stock.

"Neighborhood revitalization stabilizes families, lets them keep their kids in the same schools, and it's an exponential positive multiplier for the local economies in these areas," she said.

This push to upgrade aging inventory has led to energy efficiency improvement loans and renovation mortgages designed to cover the cost of home renovations.

TO NAVIGATE A CHANGING MARKET