BORROWER OF THE FUTURE℠

Borrower℠ of the Future | Freddie Mac

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Powerful forces are transforming America, challenging and reshaping how people view themselves, their families and their future prospects. Yet in the face of pervasive change, one imperative remains: the American Dream of owning a home.

To serve the Borrowers of the Future, our industry must rededicate itself to understanding their hopes and fears, characteristics and challenges. At Freddie Mac, we continually analyze a wide spectrum of data points, publishing our most illuminating insights.

After all, the American Dream is a collective vision – and we all share responsibility for making it possible.

A MORE DIVERSE NATION OF HOMEOWNERS

America is becoming a more diverse nation, and our ideas about family, tradition and independence are becoming more diverse too. This is changing how the Borrowers of the Future think about homeownership.

Optimism about homeownership is on the rise in minority communities. By 2020, more than 50% of first-time homebuyers will be Hispanic – a notable statistic given that Hispanics are less than 20% of the U.S. population.

And as America becomes a "majority-minority" nation, that may change our idea of what "home" means – and who lives there. Consider multigenerational households: In 2016, 64 million Americans – 20% of the U.S. population – lived in households with at least three generations, for example, children, parents and grandparents. The multigenerational trend is rising among all ethnic groups with Asians (29%) and Hispanics (27%) leading the way.

NEW IDEAS ABOUT SHARING, OWNERSHIP AND WORK

People still wish to become homeowners – but the concept of ownership is changing. Platforms like Uber highlight the shift from traditional top-down operational models to on-demand “horizontal” systems comprised of individual entrepreneurs. Perhaps nowhere is this more evident than Airbnb, which has given homeowners the infrastructure necessary to commercialize the most valuable asset they own.

This vast, new, componentized network of free agents –the “gig economy” – presents challenges to lenders, as these prospective borrowers are 1099-based contractors, not salaried W-2 employees. By 2020, an estimated 43% of the labor force will be engaged in some form of self-employment. This is true in both high-paid industries like technology as well as the services sector. Lenders hoping to succeed in the economy of the future must be prepared to evaluate the capacity of borrowers who, with greater frequency, lack the traditional W-2.

THE FUTURE IS ON-DEMAND. AND THE BORROWERS ARE MORE DEMANDING.

To the Borrowers of the Future, speed isn't a selling point; it's a given. Today, everything from rides to meals to entertainment to pet care is available with tap-to-get-it-now ease. A weeks-long mortgage application process seems out of sync with expectations of a frictionless, digital-first experience.

The expectation goes beyond speed and seamlessness – it needs to be right for the particular borrower. A generation raised on configuring personal preferences and receiving customized offers has little patience for seeing the "wrong" content, home listings out of their budget or geography, or mortgage application questions not pertinent to their situation. As younger borrowers in general are happier interacting with an algorithm than, say, a level-one call center attendant, this doesn't necessarily hold true in homebuying: 90% of millennial homebuyers in a National Association of Realtors study wanted not just to use an app but also to work with a live, human realtor – presumably, a fast one.

FACING UP TO THE DOWN PAYMENT CHALLENGE

With many coming of age in the Great Recession – and many more either immigrants or the children of immigrant families – the Borrowers of the Future tend to have lower levels of accumulated savings. Federal Reserve data confirms that lower- and middle-income renters have less accumulated wealth today than prior generations, making it difficult to afford a traditional 20% down payment, particularly in overheated real estate markets. And many are unaware of the existence of low down payment mortgage options that they might qualify for.

Add to that the effects of massive student debt – $1.5 trillion and counting – along with a lack of credit history and a distrust of financial institutions. The result is a situation in which an entire generation finds itself stretched to make a down payment on a home.

At Freddie Mac, our mission is to bring innovation to housing finance and promote sustainable homeownership – homes families can afford to live in for the long term. We use big data and advanced analytics to identify what's driving the market, then share actionable insights and innovative solutions with our lender partners, so they can serve their clients better – it's all part of how Freddie continues to reimagine the mortgage experience. Since 1970, Freddie Mac has made home possible 77 million times over.

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