How [Untraditional] Gig Workers Are Navigating [Traditional] Mortgage Lending Rules

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The explosion of freelance work has changed the economy in a number of significant ways. After all, by some accounts, 43 percent of U.S. workers will have some involvement in the gig economy by as early as 2020. Of the major industries being impacted, the mortgage lending business seems ripe for drastic changes to longstanding lending guidelines.

Most homeowners are familiar with traditional mortgage-lending guidelines. Specifically, many mortgage lenders require a buyer to have two years of documented income plus reasonable prospects that those earnings will continue for another several years. This two-year income history is a reliable factor in the decision making process. It makes lenders comfortable with the risk of making a loan. After all, they want to avoid loan defaults. However, for gig workers who only sign up for short-term assignments and don't have the traditional dependency on steady permanent work, this becomes a major issue when requesting money from lenders.

This is because many lenders do not consider earnings from gig jobs as "income" under existing mortgage lending guidelines. Prior to the growth of the gig economy, it was mostly 1099 workers likely dealt with this issue. However, the sheer number of gig workers (close to 130 million full-time workers as of February 2018) makes this a pressing issue for many companies. If companies do not find a middle ground, the end result will be twofold: (1) Many gig workers will not qualify for mortgage loans, and (2) Mortgage companies will miss opportunities to lend money to potential buyers.

There could be hope on the horizon. Fannie Mae and Freddie Mac are both looking into ways to make qualifying for home loans easier for gig workers. These companies have noticed the trend that many first-time buyers have really embraced the gig economy. They also understand traditional mortgage guidelines may prove to be problematic for workers who may not have two years of consecutive work experience with one company.

In a proactive move, Fannie Mae recently surveyed 3,000 lending executives to determine just how often buyers list earnings from the gig economy on loan applications. The results show that this is a common trend. Of those surveyed, about 95 percent indicated that it would be difficult under current guidelines to include these gig earnings as "income." Both companies are developing pilot programs to find a way around this ever-growing issue.

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Fannie Mae and Freddie Mac are proactively thinking about the impact the gig economy will have on their industry. If these companies find cost-effective and safe ways to work around these issues, other companies will surely follow suit. We will continue to monitor this trend, as it will definitely impact your workforce.

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