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Freddie Mac: Boomer Opportunity

Instead of writing off citizens in their golden years - or in this case semi-golden - Dave Lowman suggests lenders view them as a **business opportunity**. Unlike their own parents who, by age 55 were moving toward retirement and into senior living communities, the Baby Boomers are a vibrant, confident generation who are living longer and are definitely on the move."

Lowman, an executive vice president for Freddie Mac's Single-Family business, writes in the company's Executive Perspectives blog that there are 67 million home owning Baby Boomers, part of the second largest generation in history. They constitute only one quarter of the U.S. population but they own two-thirds of its housing wealth.

The housing industry **needs to better understand** this cohort, he says, because the decisions they make over the next five years are going to have a large impact on housing and mortgage credit. This is why Freddie Mac recently commissioned a survey of nearly 5,000 homeowners over age 55 about their financial confidence and housing plans and learned three important things about this generation of homeowners:

They aren't staying put.

Nearly 25 million said they would like to move one more time and about 9 million expect to do so within the next four years. Six-and-a-half-million of those plan to buy their next home.

They are a potential mortgage market.

About 20 million of these homeowners plan to buy a new home or finance age-in-place renovations, creating a significant market opportunity. In addition, 36 percent of retired 55+ homeowners and 57 percent of those still in the workforce carry a mortgage, and the majority still have 10 years left on their loan.

This is a financially confident generation.

They hold \$8 trillion of home equity, and more than three-quarters, or 51 million, say they are confident they will be financially comfortable in retirement.

Lowman says that bottom line is that this is a sizable market and even a relatively modest increase in lending to it **could add trillions** of dollars in new originations in a relatively short time.

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.89%	0.00	0.00
15 Yr. Fixed	6.33%	+0.01	0.00
30 Yr. FHA	6.33%	+0.01	0.00
30 Yr. Jumbo	7.05%	0.00	0.00
5/1 ARM	6.58%	0.00	0.00
Freddie Mac			
30 Yr. Fixed	6.77%	-0.09	0.00
15 Yr. Fixed	6.05%	-0.11	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.00%	-0.03	0.60
15 Yr. Fixed	6.63%	+0.07	0.61
30 Yr. FHA	6.87%	-0.03	0.92
30 Yr. Jumbo	7.13%	+0.02	0.38
5/1 ARM	6.22%	-0.16	0.60

Rates as of: 7/22

Recent Housing Data

		Value	Change
Mortgage Apps	Jul 10	206.1	-0.19%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

On the flip side, those boomers who chose to age in place will increase inventory pressures and lessen the affordability of homes for those coming behind them, particularly Millennials. The mortgage industry, he says, needs to think about ways to balance the needs of those two generations over the next few years.

Builder Confidence

Mar

51

+6.25%

He points to **some recent steps Freddie Mac has taken** to address the emerging housing needs of those over age 55. First, the company allows Individual Retirement Accounts and 401(k)s, lump-sum retirement account distributions, and the proceeds from the sale of a borrower's business to be used to determine eligibility for a mortgage. Recently there has been guidance added to help lenders best calculate a borrower's qualifying stable monthly income from these sources and more easily document their use. This is in addition to a long history of allowing lenders to use dividends, interest payments, trust distributions and Social Security as part of qualifying income.

Since aging in place can require physical modifications to a home, Freddie Mac offers a **Renovation Mortgage** as well as the ability for borrowers to incorporate energy efficiency improvements into their mortgage. The company is currently conducted outreach with lenders to better understand improvements that can be made to address these market opportunities.

Many older homeowners **switch from single-family houses to condo** living. Freddie Mac is working to help lenders better understand funding requirements for condos and has streamlined and clarified workflows for these loans over the past two years, helping to clear up common misconceptions around project reviews, investment properties and loan-to-value ratios.

Lowman says the company has their **eye on the future** and now is the time for the industry to consolidate efforts to both meet the Baby Boomers housing needs and to take advantage of this unfolding market opportunity.

Update: Buyer Broker Agreement

After requests from real estate companies, a nonprofit consumer watchdog group the Consumer Federation of America has developed a list of factors to consider when creating a buyer contract in preparation for upcoming practice changes in the industry.

CFA released its "Proposed Criteria for Evaluating Home Buyer Contract Forms" on Tuesday. The 15 criteria focus on the contracts' form – whether the documents are readable and understandable – and content – whether they are fair to homebuyers.

- the document's expiration date (CFA recommends buyers asks for a three-month contract and never sign one longer than six months)
- the right to terminate the contract
- the disclosure that compensation is negotiable
- the broker's compensation clearly stated and that the buyer broker can't receive additional compensation for facilitating a sale
- that any additional fees, such as for showing a home, will be deducted from the broker's commission if there is a successful sale
- that the commission is due only if there is a successful closing
- that buyers have an obligation – for no longer than 60 days, CFA recommends – to pay a broker who earlier showed them a home they purchased after the contract ended
- seller concessions paid directly to buyers
- dual agency not pre-approved by the contract
- an explanation of how a broker treats different buyer clients interested in the same property
- that buyers should not be required to first go through mediation or arbitration if they have a complaint

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