

Evolving with the Employment Market

How Self-Employed Borrowers Are Changing the Mortgage Origination Landscape



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The market of self-employed and “gig economy” participant (contractor and free-lancer) borrowers is growing. As the market increases, the mortgage market must adapt to meet their needs — both in perspective and technology.

Credit unions must learn more about how to view the self-employed borrower market as an opportunity, and leverage different available technologies to originate loans for those particular members.

Self-employed individuals seem to have it all. They get to work for themselves, set their own schedule, and many tout having a better work-life balance, too. It’s difficult not to envy them. However, when a self-employed

member walks through your door, you’re likely considering all the complexities and challenges that come with taking their application. Those might include the inconsistent month-to-month income and the fact that it

usually takes longer to verify a self-employed borrower’s income than a member with a W-2.

Here’s the deal: The population of self-employed individuals and gig economy participants is increasing, so these types of members aren’t going anywhere.

The good news is that the mortgage process for self-employed borrowers is improving to make everything smoother for them and you.

AN EXPANDING MARKET WITH NUMEROUS CHALLENGES

As mentioned, the self-employed and gig economy market is growing.

In 2016, 9.6 million people were considered self-employed by the Bureau of Labor Statistics. This is in the context



of those who own their own businesses. As more people start businesses, this number will continue to grow.

Another large and growing market is the gig economy. The gig economy is made up of contractors and freelancers who work on short-term agreements. This can mean that one member applying for a mortgage could have 1099s from many businesses to qualify their income.

While there's not a firm grasp on the number of gig economy workers, one estimation from Gallup concludes that 36% of U.S. workers are either full- or part-time participants in the gig economy.

WHAT THESE MARKET CHANGES MEAN TO MORTGAGE LENDERS

We know there are growing markets of individuals who have more complex sources of income, and those numbers will continue to increase significantly.

Instead of looking at the growing volume of self-employed borrowers as complex challenges to solve, we'd be better off looking at it as an increase in opportunities.

The good news is when you make this perception shift, you'll find that there are overall market changes that can help ease the shift. These range from guideline changes to technology improvements.

Recently, GSE guidelines have expanded to ease the verification process. Fannie Mae in particular will allow for as few as 12 months of in-

come verification for members who have a short self-employment history.

Qualifying self-employed borrowers also is getting easier thanks to new technologies coming online. Automated Underwriting Systems (AUS) are getting better at analyzing self-employment income and recognizing what qualifies and what's exempt when calculating taxable income. Many of these technological improvements in mortgage origination are utilizing existing technologies such as optical character recognition (OCR).

LIFE CAN BE EASIER FOR YOU AND YOUR MEMBERS

With expanded guidelines and enhanced technologies, you still might be wondering what you can do, specifically, to help self-employed members close on a mortgage faster.

Develop Digital Content: Digital content is powerful in that it's easily accessible online. It's also not that expensive to produce.

Content—when done the right way—not only helps your members, but also helps you. When you can provide content that helps prepare your members for the mortgage application process, everyone saves time.

Here's one way to think about that kind of content. List out all the things that typically stall the closing process when you're working with a self-employed borrower. Maybe it's members not knowing they need a particular document or forgetting about a source of income.

When you have your overarching list, you can start posting helpful lists on social media or writing blog posts to point members in the right direction when they're thinking about the mortgage process.



When a self-employed member walks through your door, you're likely considering all the complexities and challenges that come with taking their application.



Continuous Learning: If you've noticed an uptick in the number of self-employed members you're working with, you'll want to focus on continuously learning about their application process. This will help you stay up-to-date on any form changes and mitigate the chance of a delay in closing.

Be in the Know: Lastly, try to stay on top of how the GSEs are managing the process for self-employed borrowers and gig economy workers.

Fannie Mae and Freddie Mac have both announced their partnership with LoanBeam, a tech company specializing in income validation via optical character recognition. If your credit union adopts LoanBeam, you'll have the assurance that the GSEs will accept their outputs.

There also are a number of third-party verification technologies being implemented across the mortgage industry which, when applied correctly, could help lenders qualify income and other application information for self-employed borrowers.

As the self-employed and gig economies evolve and technology improves, we'll certainly notice improvements to the mortgage application process for self-employed borrowers and lenders. A simplified process can ultimately result in a markedly improved member experience. 



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Blending the knowledge gained from her sales tenure and 15-plus years of previous lending experience, she provides a unique perspective in bringing forward business development solutions for customers.