

Homebuyers' Overestimation of Mortgage Requirements

Situation:

Fannie Mae survey findings consistently show that while most Americans prefer homeownership to renting, there is a significant lack of understanding among potential homebuyers about what it takes to qualify for a mortgage, which may lead them to give up on their homeownership aspirations prematurely.

Impact:

Increased consumer access to credit scores and online sources of mortgage information has done little to change Americans' perception of whether they can qualify for a mortgage. Mortgage market participants can help increase access to credit and promote sustainable homeownership by helping to educate consumers.

Overview:

Consumers are more financially literate today than they were in 2015; however, they aren't yet fully mortgage literate. This is pervasive, even among current homeowners and those who report expectations of buying a home in the next three years.

- More consumers reported seeing their credit score recently, but close to half still cannot recall what it is
- Although the usage of online sources of mortgage information is becoming more common, consumers overestimate the minimum credit score and down payment necessary to qualify for a mortgage
 - 53% don't know the credit score lenders require — 580
 - 40% don't know the minimum down payment required — 3%

Potential homebuyers know their credit score, but most don't know what to do with it

While viewing one's credit score is a good start, consumers need to understand what to do with that information. Although Americans are confident they could improve their credit score, monitoring a credit score is not the same as understanding how the score impacts their financial situation.

Only 4% of respondents reported that the mortgage application process is too complicated. The top five most commonly cited reasons for the expected difficulty were:

- Insufficient income
- Too much existing debt
- Low credit score/no credit history
- Unable to afford down payment/closing costs
- Lack of job security

Consumers also believe that lenders “expect” a higher down payment than in 2015

Fannie Mae believes in working with lenders to educate consumers on their mortgage options, including low down payment options and how comparison shopping often leads to better rates and fees. For those consumers who don't yet qualify for a mortgage, having a better up-front understanding of the requirements they need to work toward can help reduce costly and frustrating mortgage application denials.

Fannie Mae Solutions:

Fannie Mae has performed research into when, where, and how consumers will be open to receiving mortgage information. We've learned that information should be:

- Customized and timely — delivered during decision making
- Mobile-enabled — Americans are increasingly using their mobile devices for financial services



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- Mix of digital and human contact — due to the perceived complexity of the mortgage process, consumers prefer a combination of both

Fannie Mae believes high-quality **homeownership education and housing counseling** make a difference in successful homeownership. With it, borrowers are better informed and have a clearer understanding of their housing needs, household budget, and how to solve potential problems, benefiting both the homebuyer and the lender. We support lenders and other industry stakeholders in encouraging all borrowers to engage in some sort of education before buying their first home, and we even require it for first-time homebuyers for some of our affordable products, such as [HomeReady® mortgage](#).

Fannie Mae's single-family underwriting considers a variety of credit data, not just a single credit score. This allows borrowers with non-traditional credit histories to qualify for loans.

Fannie Mae has invested heavily in creating digital portals and resources for potential homebuyers, so that they can be better informed about their options and purchasing power.

Quotes:

“While viewing one's credit score is a good start, consumers need to understand what to do with that information.” Mark Palim, Vice President and Deputy Chief Economist and Sarah Shahdad, Market Insights Researcher, Fannie Mae

“Education should leverage multiple channels to reach consumers.” Mark Palim, Vice President and Deputy Chief Economist and Sarah Shahdad, Market Insights Researcher, Fannie Mae

Sources:

Palim, Mark, and Shahdad, Sarah. June 5, 2019. [Consumers Continue to Overestimate Mortgage Requirements](#). Perspectives blog, Fannie Mae.

Fannie Mae. June 2019. [Consumers Continue to Overestimate Mortgage Requirements](#). Survey Findings

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MORTGAGE UNDERSTANDING INFOGRAPHIC

Recent [@FannieMae](#) survey finding: Although more people know their credit score, homebuyers frequently overestimate what's needed for a mortgage, which can end their home search before it really begins. Owning a home might be easier than you think.

