THE WALL STREET JOURNAL.

February 8, 2018

Gig Economy Grows Up as Lenders Allow Airbnb Income on Mortgage Applications

Homeowners soon will be able to count income they earn from Airbnb Inc. rentals on applications for refinance loans.

A new program—expected to be announced on Thursday by Airbnb, mortgage giant Fannie Mae and three big lenders—will allow anyone who has rented out property on Airbnb for a year or longer to count some or all of that money as income.

Refinancing can be a way for a homeowner to tap home equity for renovations, college tuition or other big expenses, or to reduce their monthly payments.

Lenders have been tougher on income from side businesses and part-time work since the mid-2000s, when poorly documented income claims on mortgage applications helped fuel the housing bubble.

Airbnb, which launched in 2008, argues that its service includes reliable technology to track income, and that it is helping middle-class Americans stay in their homes by giving them a way to generate additional cash.

"The whole big idea behind Airbnb … was how could people unleash or capture the value of the home that they were in. Typically it's the greatest expense for any family," said Chris Lehane, head of global policy and public affairs for Airbnb. "I do think this announcement is a next chapter in that process."

The mortgages will be backed by Fannie Mae, an acknowledgment that Americans today increasingly are earning money through the "gig economy," such as renting out rooms or ride-sharing.

Initially, three lenders, Quicken Loans, Citizens Bank and Better Mortgage, will participate in the program. Fannie will evaluate the initiative and could decide over time to back mortgages from any lender that chooses to count Airbnb income in a refinancing, as long as the short-term rentals aren't against local laws.

"Rental income on your own home is something that 10 years ago we almost never saw," said Jonathan Lawless, vice president of customer solutions at Fannie Mae. "The fact is that we're seeing this much more commonly across the country."

Still, the move raises worries about encouraging homeowners to borrow more based on the unpredictable tourism industry.

“I think it’s a concern in terms of volatility, but I also think you don’t want to say absolutely not because it’s the future of work,” said Dan Immergluck, a professor at the Urban Studies Institute at Georgia State University, who studies the housing market, mortgage finance and foreclosures.

Airbnb has faced a host of regulatory challenges around the country. It has encountered stiff pushback from tenant advocates, for example, who argue it is exacerbating the housing shortage and driving up rents.

So far most of the scrutiny has focused on rental apartments and homes that are converted to full-time vacation rentals, with regulators generally tolerating homeowners renting out a primary residence.

There is a risk that could change. “If you’re in a place where it’s booming, but a year from now they’re going to clamp down on it,” that could jeopardize income generated from Airbnb, Mr. Immergluck said.

Executives at the three lenders said one crucial difference between the housing bubble and today is technology, which makes it easy to keep track of how much income homeowners are earning from Airbnb.

Jay Farner, chief executive of Quicken Loans, said technology allows lenders to gather reliable income data directly from Airbnb.

“If you were collecting rental income, in some cases you didn’t have to show it. In other cases you provided handwritten tax returns. Today, data allows us to see the real patterns,” Mr. Farner said.

He added the company has seen demand from homeowners who have been renting a room out on Airbnb and want to refinance and use the money to upgrade the guest quarters.
Vishal Garg, chief executive of Better Mortgage, said the program could be useful for empty nesters who rent out their children’s bedrooms and refinance to help pay for college tuition.

Mr. Lawless of Fannie Mae said Airbnb gives homeowners greater flexibility to cope with unexpected financial hardships.

“I can just increase the number of days that I’m renting out this room and increase my income,” he said.