

Assumable Mortgage: What It Is and How It Works



What is an Assumable Mortgage?

An assumable mortgage allows a buyer to assume the rate, repayment period, current principal balance and other terms of the seller's existing mortgage rather than obtain a brand-new mortgage.

How does an Assumable Mortgage Work?

An assumable mortgage works much the same as a traditional home loan, except the buyer is limited to financing through the seller's lender. Lenders must

approve an assumable mortgage. If done without approval, sellers run the risk of having to pay the full remaining balance upfront. Sellers also risk buyers missing payments, which can negatively impact their credit score.

One major advantage is that an appraisal is not required in these instances, which can potentially save buyers hundreds of dollars. Buyers should still order a home inspection to check for any repair issues with the property. Once the buyer closes on the home, the seller will no longer be liable for the mortgage payments.

Which Mortgages are Assumable?

Not all home loans are assumable. Unfortunately, most conventional mortgages are not assumable. However, loans that are insured by the Federal Housing Administration (FHA) or backed by the Department of Veterans Affairs (VA) or United States Department of Agriculture (USDA) are assumable as long as specific requirements are satisfied.

For most FHA and VA loans, a seller must obtain lender approval for an assumable mortgage.

Conventional loans

Can conventional loans be assumed? The answer is: sometimes. In most cases, they are not assumable because the mortgage contract contains a due-on-sale clause. This allows the lender to demand the borrower pay the entire remaining loan amount as soon as the property is sold.

However, if you have a conventional adjustable-rate mortgage (ARM) and meet certain financial qualifications, it's possible that your mortgage is eligible for assumption. Fannie Mae — one of the two mortgage agencies that sets rules for conventional loans — allows for assumable ARMs so long as the borrower does not exercise any option they may have to convert the loan to a fixed-rate mortgage.

FHA Loans

All FHA loans are generally assumable, as long as the lender approves the sale. For loans originated on or after Dec. 15, 1989, the lender must approve a sale by assumption as long as the buyer is found to be credit worthy.

Newer FHA loans require that both buyer and seller meet specific criteria for an assumable mortgage. Sellers must live in the home as a primary residence for a set amount of time and buyers must go through the standard application process for an FHA loan.

VA Loans

Backed by the Department of Veterans Affairs, a VA loan is available to eligible military members, service members and their spouses. A buyer who is not a qualified current or former military service member can apply for a VA loan assumption.

Depending on how the loan was set up, a lender may need to have the loan approved by the Regional VA Loan Center, which may take additional time to process.

In rare cases, a buyer might come across a freely assumable loan that applies to any VA loan closed on or before March 1, 1988. Sellers that fall in this category do not need to obtain lender approval but may still be liable for making payments if a buyer fails to pay their mortgage on time. However, buyers may want to think twice before taking over these types of loans since mortgages originated in the late 1980s tend to have higher interest rates.

>> A Special Caution for VA Assumable Loans <<

There is one special note for those who might be looking to have someone assume their VA loan. Although anyone can assume a VA loan, even those without the usual military service required to obtain the loan initially, the only way to have your VA entitlement restored so that you can buy another home with a VA loan is to have the home assumed by a fellow eligible active-duty service member, reservist, veteran or eligible surviving spouse.

Should the loan be assumed by a non-veteran, VA entitlement will only be the remaining balance of any previously unused entitlement benefits.

USDA Loans

USDA loans are offered to buyers of rural properties. They require no down payment and often have low interest rates.

Assumptions are usually reserved for family members who are exchanging the title of a property. The rates and terms of the original mortgage are preserved and no review of the buyer's creditworthiness nor appraisal of the property itself are required.

To know whether your mortgage is assumable, look for an assumption clause in your mortgage contract. This provision is what allows you to transfer your mortgage to someone else. Remember that if assumption is allowed, the mortgage lender will typically hold the new borrower to the loan's eligibility requirements.

How to qualify for mortgage loan assumption

To qualify for a mortgage assumption, you first need to confirm that the house you want is eligible for assumption. Then, unless you are buying the house from a family member, you should be prepared to meet the same minimum credit and income requirements that apply to typical, non-assumed mortgages.

Lenders will check a buyer's credit score and debt-to-income ratio (DTI) to see if they meet minimum requirements. Additional information such as employment history, explanations of income for each applicant, and asset verification for a down payment may be needed to process the loan.

The table below lists the minimum requirements for the most common loan types:

	Conventional loan	FHA loan	VA loan
Minimum credit score	620	580 with 3.5% down; 500-579 with 10% down	No minimum, but 620 is lender standard
Maximum DTI	45% back-end ratio	31% front-end ratio; 43% back-end ratio	41% back-end ratio

How to assume a Mortgage After Death or Divorce

Not all mortgage assumptions arise from home sales. Sometimes one spouse assumes the loan following a divorce or the death of the other spouse. assumption is allowed even if the contract does not include an assumption clause

<< Assumption After Death >>

An heir can assume an existing mortgage from a relative who has passed away. The new borrower does not need to qualify for the loan in order to assume it. However, the original borrower(s) on the loan are not released from any liability on the loan.

Prior to the initiation of the assumption process, the family member / heir must provide documentation that they are the heir and current owner of the property they are looking to be assume and receive confirmation of Successor in Interest (SII) status from the Loan Servicing team.

<< Assumption Due to Divorce >>

If one person is awarded sole ownership of a property through divorce proceedings, that person can assume the full existing mortgage themselves. The borrower awarded sole ownership of the property will be required to go through the credit qualification process. Approval is not automatic.

If the original loan note has both spouses on it, then the lender likely took both of their credit scores and incomes into account when they qualified for the mortgage. When one spouse is no longer on the loan, then the lender will want to confirm that the remaining borrower is also qualified on their own.

What Costs are Associated with Assuming a Mortgage?

Assumption fees are much lower than fees on a standard mortgage loan. The lender will charge you for their incidental costs, including credit report, flood zone search, title and escrow (if applicable), and recording. Though title and escrow charges can vary quite a bit by state, the total of these fees will likely be less than \$1,000, and almost always under \$1,500. For example, Bank of America's average assumption fee is \$1,062.

In addition to these incidental costs, the lender is allowed to charge a flat "assumption fee" for their services. If the loan in question is a government loan (FHA or VA), the lender is limited to what they can charge. The maximum allowed assumption fee for FHA is \$900. VA assumption fees are \$300 plus the cost of a credit report (lenders that have automatic approval authority) or \$250 plus the cost of a credit report (lenders that must submit VA loans for manual approval).

Closing costs are required on assumptions. These typically are in the range of 2-5% of the loan amount.

How do I start the Assumption Process?

>> Standard Assumption <<

- (1) Determine if the loan is assumable.
- (2) Request an Assumption Package from our Assumptions Team assumptions@newrez.com

>> Assumption After Death<<

- (1) Confirmation of Successor in Interest (SII) Status

a. Contact Customer Care: 800-365-7107

(2) Request an Assumption Package from our Assumptions Team assumptions@newrez.com

>> Assumption Due to Divorce <<

(1) Request an Assumption Package from our Assumptions Team assumptions@newrez.com

I have completed my Assumption Package – Now What?

Send your completed Assumption Package and all supporting documentation in PDF format by email to assumptions@newrez.com

If you prefer to submit the physical application and copies of your supporting documentation, it can be mailed to:

Shellpoint Mortgage Servicing
Attn: Document Administration – Assumptions
75 Beattie Place, Suite 600
Greenville, SC 29601

How long does the Assumption Process take?

The time to process an assumption can vary based upon the type of loan that the assumption is being processed on, as well as the type of assumption.

The below table provides a general timeline for each Assumption Type. Please note that the processing of an assumption request, regardless of type, does not begin until the package is returned completed and all supporting documentation is provided.

Assumption Type	Processing Time	Process Starts When?
Standard Assumption	60 – 90 Days	Completed package and all supporting documentation is received.
Assumption Due to Divorce	60 – 90 Days	Completed package and all supporting documentation is received.

Assumption After Death	30 – 60 Days	Completed package and all supporting documentation is received.
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