AGENT'S GUIDE TO THE HIDDEN GEMS SYSTEM

Hid•den Gem

[hid(ə)n jem] *noun*

Something possessing a value or beauty that is not immediately apparent, which therefore has received far less recognition than it deserves.

One particular type of mortgage that hasn't received much recognition in the past few years is the assumable mortgage — one that allows a new borrower to take over an existing loan from the current borrower.

The buyer (the person 'assuming' the loan) is in exactly the same position as the person passing it on. The buyer will have the same terms and conditions, the same interest rate, the same remaining repayment period, and the same mortgage balance. In other words, an assumable loan is effectively swapping one borrower's name on the mortgage agreement for another.

In a market where interest rates are low, there isn't much demand for assumable loans. What makes an assumable loan attractive is it's potentially low interest rate in a market where rates are much higher.

An assumable mortgage seems simple at face value: The buyer takes over an existing mortgage from the seller and its terms, interest rate, and loan amount stay the same. That means the buyer's monthly payments are the same amount as the original borrower.

In practice, however, assumable mortgages are more complex. They're definitely not a free pass for someone who's having trouble qualifying for a new loan.

There are two things buyers should know about how assumable mortgages work:

1. Not all types of mortgage loans are assumable. Conventional loans are *NOT* assumable, for example, but government-backed loans (FHA — including USDA — and VA loans) are.
2. Not just anyone can assume an existing mortgage. You still have to apply with the lender, typically through the company that services the mortgage, and qualify for the loan.

Remember, when a buyer assumes a mortgage they're taking over the homeowner's remaining loan balance. In most cases that won't cover the full purchase price of the home, so they'll still need a down payment — a potentially large down payment — to make up the difference.

In the right situation, there can be big benefits to taking on an assumable mortgage. But this strategy won't work for everyone, so it's important to understand the pros and cons — the benefits and risks — before offering up the assumable loan option.

PROS

- **Low Interest Rates.** Since mortgage rates have risen so dramatically recently, an assumable loan offers a rare chance to access lower rates as a buyer — or, if you're the seller, boost the desirability of your house *significantly*.
- **Lower Closing Costs.** You'll likely have lower closing costs, as some closing costs on assumed mortgages are capped.
- **No Appraisal.** Typically, there's no appraisal required when transferring or selling through assumption.
- **VA Loans** are provided by the U.S. Department of Veterans Affairs and borrowers normally have to be active-duty service members, veterans, or eligible surviving spouses to qualify for a VA loan. However, in cases of assumption, the person assuming the loan is *NOT* required to be affiliated with the military.

CONS

- **Potentially Higher Down Payment.** If the seller's equity is high, your down payment may be far higher than if you weren't purchasing through assumption.
  - » If a home sells for $500,000 and the remaining balance on the loan is $200,000, then the buyer will have to come up with the remaining balance of $300,000. That's a 60% down payment!
- **Credit and Income Requirements.** Most sellers won't be able to sell to you through an assumption unless you meet the lender's credit and income requirements because, in that case, the lender likely wouldn't release them from continuing liability.
- **A Note for VA borrowers.** If you sell a house with a VA-backed mortgage through assumption, your VA loan entitlement won't be available until the assumed loan is paid off, unless the buyer is a qualifying veteran with entitlement.
- **Potential Fees.** You may be required to pay loan assumption fees or ongoing mortgage insurance payments.

For the right buyer, an assumable loan can be a lifeline, offering low interest rates and favorable terms. For the seller, it can be just what they need to stand out in a crowded marketplace and attract significantly more buyers.

Whether representing the seller or the buyer, the Hidden Gems System relies on you to learn as much as you can about the different types of assumable loans available and the particular rules that apply to each of them. As assumable loans have not been an often-used loan in recent years, you may find lender reps may be unfamiliar with assumable loans and you could find yourself as the subject matter expert guiding the process!

Once you become familiar with the ins and outs of assumable mortgages, you can start your home search. When you find the perfect home with the perfect loan, you will have found a Hidden Gem.

The small print: Generally, government-backed loans — Federal Housing Administration (FHA) loans, U.S. Department of Veterans Affairs (VA) loans and U.S.Department of Agriculture (USDA) loans, which are also insured by the FHA — are assumable, while conventional loans are not.

All VA loans are assumable, but with additional rules and qualification requirements that govern exactly how:

- Loans originated before March 1, 1988, are "freely assumable," which means the assumption doesn't have to be approved by anyone.
- Loans originated after March 1, 1988, are assumable, as long as the lender approves and the buyer is deemed creditworthy and pays a processing fee.

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 creditworthy.

USDA loans are assumable in two ways:

- **New rates and terms.** Most USDA loans are assumable in this manner, which transfers responsibility for the mortgage debt to the buyer but also adjusts the debt by re-amortizing it with new rates and terms.
- **Same rates and terms.** Available only in special circumstances, this type of assumption is usually reserved for family members who are exchanging the title of a property. In these cases, the rates and terms of the original mortgage are preserved and no review of the buyer's creditworthiness nor appraisal of the property itself is required.