Loan Assumptions: A Guide to Assumable Loans

A Guide to the Different Types of Assumable Loans


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LADERA RANCH, CA, UNITED STATES, September 8, 2023 /EINPresswire.com/ -- Because new loan rates have increased and are now above 7%, loan assumptions are surging in popularity. A loan assumption is a lending process where a borrower formally takes over or "assumes" a current home loan from a home seller. The buyer wins. Loan assumptions transfer the existing loan's balance, the interest rate and the monthly mortgage payments from the seller to the buyer. The assuming party (i.e., the buyer) qualifies for this assumption, and, if it goes through, the seller is released of all liability. This helps the seller to not discount the price of the home, and they will net more proceeds from the sale.

Who can assume a loan?

> Don't assume you can't assume an assumable loan."
> *Paul E. Scheper*

Any qualified borrower assume a loan if they qualify. There are three types of assumable loans -- FHA, VA, and USDA loans.   However, there are some requirements that must be met in order to qualify for an assumption. These include:

1) The buyer must be able to qualify for the loan based on their own creditworthiness and income.
2) The buyer must be able to afford the monthly mortgage payments.

3) The buyer must be willing to assume the seller's loan debt, including any outstanding balance, interest rate, and fees.
4) The seller must be willing to release all of the loan terms to the buyer and the seller will be released of all liability.
5) The current bank or servicer must approve the assumption, after reviewing the paperwork.

What are the benefits of assuming a loan?

There are several benefits to assuming a loan. These include:

A) Flexible credit requirements. Assumable loans have more flexible credit requirements than conventional loans. This can make it easier for buyers with less-than-perfect credit to qualify for a mortgage.
B) The buyer gets a lower rate and lower payment.
C) The seller can sell the home without cutting the price or offering financing concessions.
D) The current servicing company (the bank) wins because they get to keep the customer relationship.

"Don't assume you can't assume an assumable loan," says Paul E. Scheper, President of Loangevity Mortgage in Orange County, CA. Adds Scheper, "These loans work just like traditional loans, but instead of my clients paying 7.25% for a mortgage today, they only pay a rate between 2.5% and 4.5% (depending upon when the seller got their loan). Paying less is exciting for my buyers. They are happy campers because they are not forced to get a market rate loan today."

Processing a loan assumption takes skill, precision and knowledge. The current loan servicing company is usually not set up to handle these, and that's why companies like FHA Pros and Assumption Pros (and other mortgage experts) charge a fee to handle the paperwork. Sellers and Buyers are usually ill-equipped to handle the process and procedures of a loan assumption. "Due to staff shortages and lack of focus on the assumption process, most banks are ill-equipped to handle assumptions in the mandated 45 day period," says Scheper.   Scheper continues, "Most banks don't know what they don't know. That's why outsourcing to a professional is advisable."

The basic steps involved in assuming a loan are:

The buyer and seller must agree to the terms of the assumption.
The buyer must qualify for the loan based on their own creditworthiness and income.
The buyer must provide the lender with a copy of their credit report and other financial information.
The lender will review the buyer's information and approve or deny the assumption request.
If the assumption is approved, the buyer will need to sign a number of documents, including the loan assumption agreement.
The lender will then release the seller from liability on the loan.

According to Scheper, "Assuming a loan can be a great way to buy a home without having to go through the traditional mortgage process. However, it is important to understand that it requires a systemized process, a checklist mentality, and relentless follow up by the buyer (or the company that the buyer hires) to navigate the assumption process from A to Z.   But, it's worth it because the interest rate on an assumption is about ½ of the prevailing market rate for a new loan."

For more information about loan assumptions and the process, please contact Paul Scheper, President of Loangevity Mortgage at 800.662.6784 or PaulScheper.com. Or, check out the educational YouTube Channel, www.AssumeTube.TV for more information.

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