Assumption

Most mortgages require the loan to be paid off to transfer the title of a property. In other words, to sell you must pay off your loan and your buyer must secure a new loan. This common stipulation is referred to as a “due on sale” clause.

The Lucky Ones

If your loan is one of the few that allows for an “assumption of mortgage”, you have another, nifty option. Your buyer may be able to take over your loan instead of getting a new one of his or her own. FHA, VA and Oregon State Bond loans commonly allow for an assumption. Additionally, most adjustable rate mortgages are assumable once the rate begins adjusting.

Why doesn’t everyone do this?

Although assumptions sound interesting on paper, they happen infrequently. One big reason is that a buyer applying for a new loan can select any down payment, monthly payment and other terms they like. A buyer assuming an existing loan must take whatever the old loan terms happen to be. Odds are slim that the old loan will line up perfect with the new buyer’s budget.

Also important to note, any modern loan with an assumption clause will require that the buyer apply and qualify for the loan, meeting all income, credit and other underwriting guidelines. So an assumption is not a shortcut to credit for a buyer having trouble qualifying for a loan through more traditional channels.

Due to a period of very low interest rates from 2009 to 2014, assumptions may become a little more common. As rates rise, more buyers may be inclined to figure out a way to work with the terms of an old loan in order to take over a low interest rate loan that’s (even better) been paid down buy the prior owner for a few years.

Reasons for an assumption

In the real world, however, the most common time we see an assumption is (sadly) during a divorce. If one spouse is keeping the home and the other is moving on, an assumption offers an easy path to tidying up liability for the mortgage debt.

Another practical application for an assumption comes into play when one family member has cosigned for another. Let’s say mom and dad cosign for their daughter who’s in medical school. Once she’s graduated and is a practicing physician, she’s not going to need cosigners anymore and can apply to assume her own loan, removing mom and dad from liability.

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