All About Assumptions

An **assumption** is when an individual assumes or takes liability for a loan. The only things that change with an assumption are the name on the loan, and who is liable for payments.

An assumption can involve removing a borrower, adding a borrower, or in some cases, can be a third-party purchase transaction. For example, a couple purchased a home together and are divorcing, so one person will assume full responsibility for the loan and the other will be removed. Or perhaps an elderly homeowner is no longer able to make their monthly mortgage payments, so one of their children who lives with them will be added as a co-borrower to assist with payments.

Interested in changing your interest rate, loan length, or monthly payment amount?

Refinancing may be the better option for you.

All assumption requests go through a review process, which includes a review of the credit history, income, and debt-to-income ratio of the person assuming the loan. The original borrower must be up to date on their mortgage payments. The agencies in charge of each loan program (e.g. Freddie Mac, Fannie Mae, etc.) set the requirements for assumption. Virginia Housing reviews assumption applications and approves the assumption if the applicant meets the investor requirements.

Virginia Housing loans that can be assumed are:

- Fannie Mae - Only assumable in the case of divorce or homeowner death.
- FHA - The assumption applicant must meet FHA requirements and Virginia Housing guidelines, which may include being a first-time homebuyer. If they have filed for bankruptcy in the past, the bankruptcy must have been discharged for at least two years. The loan being assumed must not have had any late payments in the previous two years. Any FHA Claims or Modifications make the loan ineligible for assumption.
- Freddie Mac - Only assumable in the case of divorce or homeowner death.
- Habitat for Humanity - Assumptions for these loans are managed and processed by the assigned Habitat for Humanity chapter.
- USDA Rural Development - Only assumable in the case of divorce or homeowner death.
- VA - If the person assuming the loan is a veteran, then the assuming veteran's entitlement will take the place of the original veteran's entitlement. If the assumption is approved, the original veteran's entitlement will be released. If the person assuming the loan is **not** a veteran, then the original veteran loses their entitlement and remains liable for the life of the loan.

Frequently Asked Questions

Virginia Housing

> ***How does an assumption compare to refinancing and/or purchasing a home?***

	Assumption	Refinance	Purchase Home
Interest Rate	Does not change	Can change and is set by lender	Set by lender
Borrower	Borrowers can be added or removed	Borrowers can be added or removed	Individual(s) who apply for and are approved for the mortgage loan
Mortgage Length	Does not change	Can change and is set by lender	Set by lender
Mortgage Insurance	Does not change	Can change, based on your new loan terms	Based on loan type and whether the down payment is less than 20% of the loan amount
Closing Costs	Based on type of loan and who is assuming liability	Based on type of loan	Based on type of loan
Down Payments	Down payments are not included in an assumption	Down payments are usually not required for refinancing your loan, but may be in certain circumstances	A down payment is usually required for a new loan

If you're interested in more information about refinancing or purchasing a home, visit Virginia Housing's Find a Lender page, for help finding a mortgage lender in your area.

> ***How much does an assumption cost?***

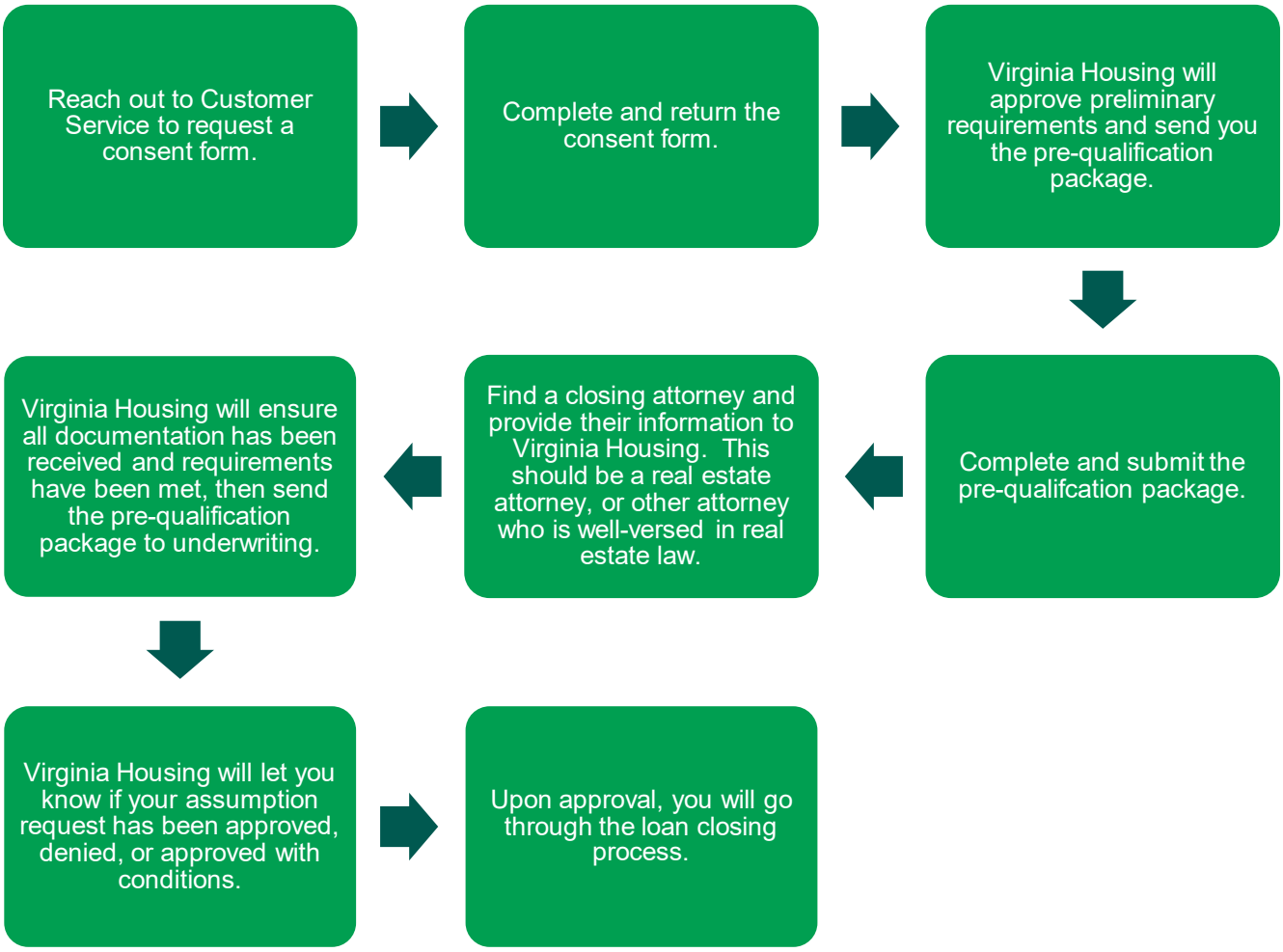
> Similar to when you purchased your home, there are closing costs associated with an assumption. Assumption fees and closing costs will vary based on the type of loan and additional factors. If you begin the application process, you will be provided an estimate of these costs. Assumption costs cannot be financed; the applicant must provide proof of funds.

> ***How long does the assumptions process take?***

> Every case is different. Similar to a new loan or refinance, the assumptions process can take anywhere from a few weeks to a few months. Providing a complete assumption package in a timely manner will help decrease processing time.

- ***I would like to remove a co-borrower from my loan. How soon can that person be removed?***
  - Following the closing of the assumption transaction and recordation transfer documents, record changes will be made within the Virginia Housing system.
- ***What is release of liability?***
  - Following the closing of an assumption transaction, any person removed from the loan is no longer liable for the loan payments. Release of liability applies to assumptions of all loan types except USDA Rural Development loans. Release of liability for VA loans does not take place until there is a substitution of entitlement from an assuming veteran.
- ***What information will I need to provide on my application?***
  - You will be required to confirm ownership of the home and who will be assuming the loan, as well as provide financial statements or documentation, contact information, and a signature. You will also need to provide consent to verify employment and credit of anyone assuming the loan. You will need to provide a certified divorce decree, separation agreement, verification of name change, or verification of child support, if applicable.
- ***Can I qualify for an assumption if my loan is delinquent?***
  - No, you must have two years of good payment history for an assumption to be approved.
- ***I would like to remove someone with a Mortgage Credit Certificate (MCC) from my loan. What will happen to the MCC if they are removed?***
  - The MCC will follow the person, not the loan. The MCC will be removed from the loan when the individual is removed. Virginia Housing does not re-issue MCCs. If one person is assuming the loan from a Co-borrower, you should consult with a tax advisor to determine if the MCC will still be an allowable deduction. Please note that Virginia Housing cannot and does not offer tax advice.
- ***Is an assumption right for me?***
  - Only you can make this decision. If you are having trouble making your monthly mortgage payments, explore all of your loss mitigation options, including refinancing, before pursuing an assumption. This is not a quick fix for payment issues and you must meet many requirements in order to be approved. For more information about assumptions, contact Virginia Housing at Assumptions@VirginiaHousing.com.

The Assumptions Process



- Anyone removed from the loan must ask the lender for a release of liability for future payments. The release must be signed by the lender or anyone still on the loan will remain liable for future missed payments.

- If your assumption is approved with conditions, your assumption request may be approved once the outstanding conditions are resolved. Any additional information requested must be submitted in a timely manner.

- If your assumption request is denied, Virginia Housing will provide information about why it was denied. Reasons for denial may include not meeting credit requirements, incomplete paperwork, the person assuming is not a first-time homebuyer, and underwriting conditions have not been met.