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## A 3% Mortgage Sounds Too Good to Be True. In Many Cases It Is.

High interest rates have created buzz around mortgage ‘assumptions,’ but buyers must wade through red tape



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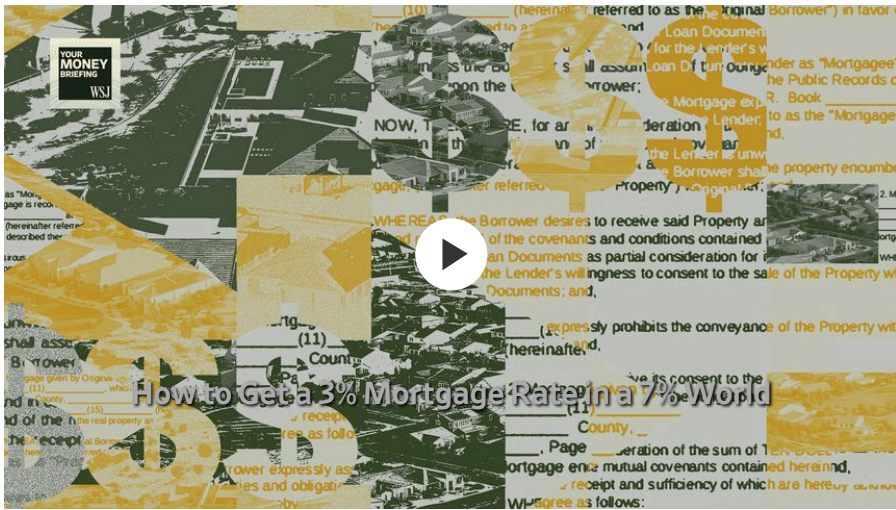
By [Ben Eisen](#) and [Nicole Friedman](#)

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Millions of home buyers can avoid high interest rates by snapping up existing low-rate mortgages—in theory. Doing so in practice is filled with obstacles.

Loans backed by the Federal Housing Administration and the Department of Veterans Affairs have provisions allowing them to be transferred [from home sellers to buyers](#), or “assumed.” In other words: Even in a world of 7% mortgage rates, a buyer can get a 3% mortgage if he or she takes someone else’s.

With interest rates high, these “assumptions” have emerged as a buzzy [way to make buying more affordable](#). But buyers and sellers, and people who advise them, say the servicers that process these assumptions are bogging down the process. It can be a lengthy wait just to have an application rejected.



Assumable loans allow home sellers to transfer the more attractive rate they secured in the past to buyers. Wall Street Journal reporter Ben Eisen joins host J.R. Whalen to explain how they work, as well as the pros and cons. Illustration: Alexandra Citrin-Safadi; Photo: Mario Tama/Getty Images

That lack of urgency stands in contrast to new mortgages, which lenders typically scramble to close as quickly as possible. Mortgage companies make much less money handling an assumption than they would writing a new loan.

Many would-be home buyers are learning a hard reality: There are very few ways to circumvent the forces making homeownership the least affordable it has been in decades. Soaring mortgage rates have added hundreds or even thousands of dollars to the monthly cost of buying a home compared with just a few years ago. Many of the more common [tricks to get a lower rate](#), like adjustable-rate mortgages, haven't been panning out either.

Robert Carelli was thrilled when his offer to buy a house in Alexandria, Va., was accepted in late 2022. The seller agreed to let him take over the VA mortgage with a rate of just over 2%. Carelli and his family were preparing to move from Connecticut.



High mortgage rates have added hundreds or even thousands of dollars to the monthly cost of buying a home compared with just a few years ago. PHOTO: JIM LO SCALZO/SHUTTERSTOCK

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[Mr. Cooper Group](#), the servicer, took four months to tell him he didn't qualify, he said. The company told him the debt he was taking on was too high relative to his income. The calculation omitted his wife's salary because she was starting a new job.

Carelli, who works in the Navy, thought that was wrong. He asked someone at the VA to escalate the situation with Mr. Cooper. He and his family were still waiting when they moved, and so they stayed with friends and at an [Airbnb](#). In May, the company changed course and approved the transaction, and they were able to close on the house and move in.

### How Assumable Mortgages Work

The transaction lets some buyers take over, or 'assume,' an existing mortgage when they buy homes. So if all goes well, they can get a low-rate mortgage even in 2024.

1. A **seller** is asking \$600,000 for a house with \$450,000 remaining on the mortgage at a 3% interest rate.



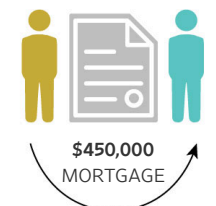
2. A **buyer** agrees to purchase the home for \$600,000 and also assume the seller's mortgage.



3. At closing, the buyer pays the seller \$150,000 to cover the difference between the price of the home and the remaining mortgage balance.



4. The mortgage, with its 3% interest rate and \$450,000 balance, is transferred to the buyer, who makes the monthly payments.



"It was really just strong-arming them into doing what they should have done anyway," he said.

The VA says companies should take no longer than 45 days to make a decision.

A spokeswoman for Mr. Cooper said that the company was pleased to help the Carelli family secure their loan, and that it must verify buyers meet credit and income requirements when approving all loan applications. The company experienced a 500% increase in assumptions last year compared with the year before, the spokeswoman said. To meet the demand, it has increased staffing and invested in technology.

Consumers last year filed 149 complaints related to mortgage assumptions with the Consumer Financial Protection Bureau, up from 97 the prior year and 67 in 2021, according to the bureau's online database. One accuses a mortgage company of "intentionally delaying assumption." Another says "neither my buyer, nor myself have been able




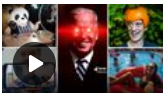

to reach a human being" at the servicing company.

The VA [issued a notice](#) in December reinforcing that servicers are obligated to process assumptions. It said companies that don't comply can be barred from the VA loan program.

Assumptions should be an appealing option for consumers, said Mark McDonough, a principal at Assume Loans in Brookline, Mass., which helps buyers and sellers with assumptions. Buyers can purchase homes they otherwise couldn't afford. Sellers can advertise that their loan is assumable, making their

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home listing appeal to more buyers. New companies including AssumeList and Roam say they want to help buyers find assumable loans.

Another benefit: Generally, a buyer inherits a mortgage that someone else already has been paying for at least a few years. That lowers the proportion of each monthly payment that goes to interest.

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There are challenges, though, and the red tape isn't the only one. Some borrowers simply can't afford to assume a mortgage. That is because the buyer must come up with cash to cover the difference between the home's sale price and the amount on the remaining mortgage. That can

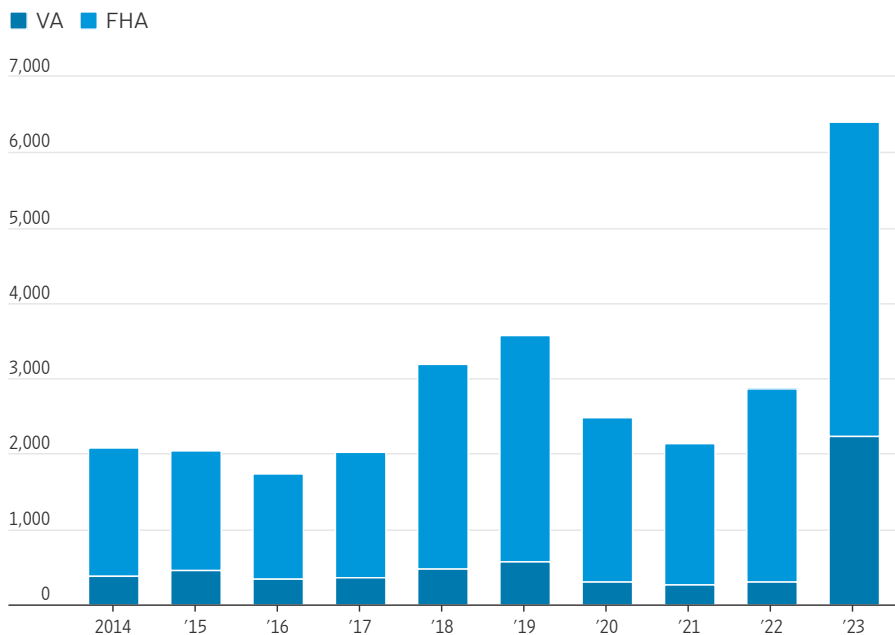
easily be hundreds of thousands of dollars, especially given how rapidly [home prices have increased](#) in recent years.

Assumable mortgages are rare compared with the trillions of dollars in new mortgages issued each year, though they have been growing in popularity. The FHA and VA together handled about 6,400 assumptions last year, more than double the amount in 2022.

There might be more if not for mortgage companies, said Christopher Gardner, founder of FHA Pros, which helps buyers and sellers with assumptions. Servicers routinely tell their customers it will take months to process one, delaying the sale so long as to make it impractical.

"It's so terribly inefficient," Gardner said.

Assumption cases by loan type



Sources: Federal Housing Administration; Department of Veterans Affairs

Mortgage companies can charge only a few hundred dollars apiece for completing assumptions. That is less than they would earn for writing new

mortgages, and often less than the cost of processing the assumption.

The Mortgage Bankers Association, a trade group, [asked the FHA and VA in late 2022](#) to raise the cap on assumption fees to \$3,500 to more fairly compensate for the work. The caps haven't been changed.

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### What Is an Assumable Mortgage?

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Guy LaFleur went into contract over the summer to sell his Las Vegas-area home. It was conditioned on the buyer assuming his VA mortgage with a 4.375% interest rate. He and the buyer told the servicer, Freedom Mortgage, that they wanted an assumption.

LaFleur said they struggled to find a contact who would return their calls and emails. One contact left the company in the middle of the process and their paperwork got lost, he said. They didn't find out for weeks. They kept delaying the closing date.

In November, long after 45 days had elapsed, Freedom informed them that the buyer didn't qualify to assume the mortgage. LaFleur and his family had gone into contract to buy another house, but when their sale fell apart, so did their purchase.

A spokeswoman for Freedom declined to comment.

LaFleur and his family still live in the house they thought they had sold.

Write to Ben Eisen at [ben.eisen@wsj.com](mailto:ben.eisen@wsj.com) and Nicole Friedman at [nicole.friedman@wsj.com](mailto:nicole.friedman@wsj.com)

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