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Review SB 1452 | Sturtevant

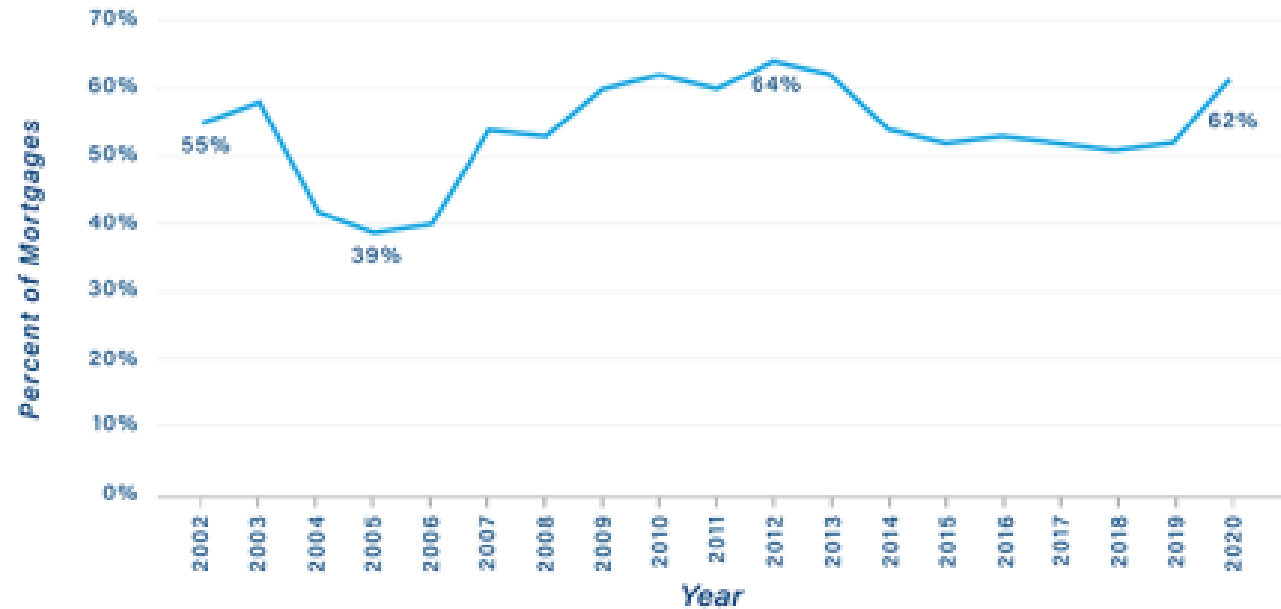
Proposed Mortgage Loan Assumptions

Don't let the tail wag the dog....

FIGURE 1

ENTERPRISE SHARE OF ALL ORIGINATIONS BY YEAR

2002 - 2020 Q2



Source: National Mortgage Database (WMDB), Federal Housing Finance Agency
Data as of January 13, 2021



FNMA & FHLMC Loans are Generally Not Assumable

For certain types of ownership transfers — referred to as protected or exempt — immediate repayment and refinancing of the mortgage is not required, and the new owner can continue making payments on the existing loan.

These situations include:

- **Death:** The property is inherited by a relative of the existing borrower.
- **Immediate family:** The borrower's spouse or children become owner(s) of the property.
- **Divorce or separation:** The property is transferred to the former spouse of the borrower.
- **Trust:** The property is transferred into a living trust where the borrower is a beneficiary and does not relate to a transfer of rights of occupancy.



If you acquire a property through a protected transfer and choose to continue paying the existing mortgage loan, you'll have certain legal rights related to the mortgage loan, such as the right to request information about the terms of the loan and the right to challenge errors. You also have the right to receive notice if the loan is delinquent — including available workout options — or if the loan is sold or transferred.

FNMA and FHLMC Notes Have a Due on Sale Clause

What Is a Due-on-Sale Clause?

A due-on-sale clause refers to a [mortgage](#) contract provision allowing lenders to require borrowers to repay their loans if all or part of the property securing the loan is sold or transferred to another party. Mortgage lenders typically require borrowers to pay off their outstanding mortgage loan using the proceeds from the sale of the home. ^[1]

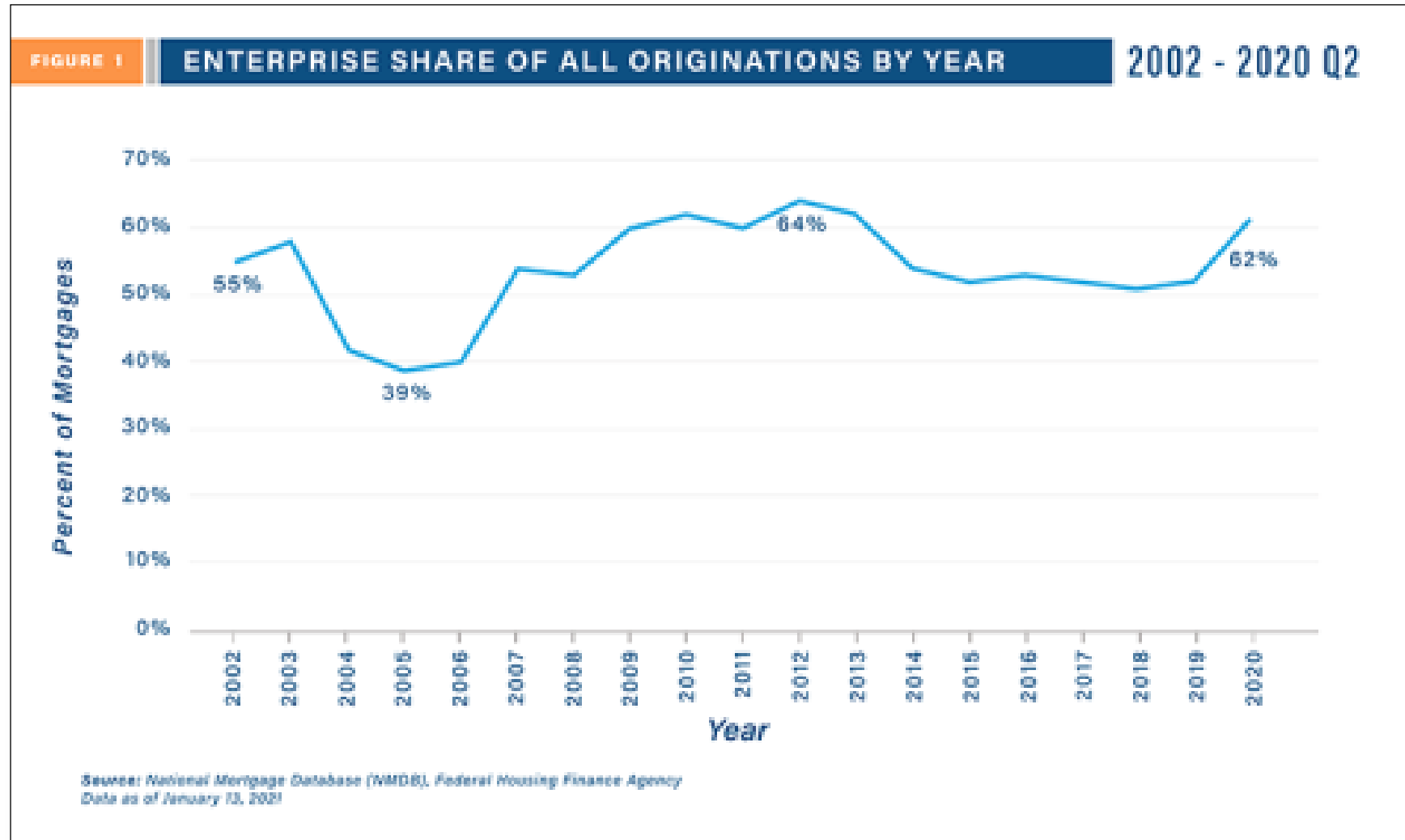
However, some loans—called [assumable mortgages](#)—allow the new buyer to take over the existing mortgage. In other situations, like a divorce, the lender might not invoke the due-on-sale clause, allowing the property to change ownership.

KEY TAKEAWAYS

- A due-on-sale clause is a mortgage provision that requires the borrower to repay the lender in full if the property is sold.
- By contrast, assumable mortgages allow the property's new buyer to take over the existing mortgage.
- Even if a mortgage has a due-on-sale clause, the lender cannot always legally invoke it or may choose not to if financially advantageous.
- A due-on-sale clause does not prevent property from changing hands in the event of a divorce, separation, or inheritance.

Kagan, Julia. "Due-On-Sale Clause." *Investopedia*, 2 Feb. 2025, www.investopedia.com/terms/d/due_on_sale_clause.asp. Accessed 14 Aug. 2025.

FNMA & FHLMC Account for Over 60% of Residential Mortgages in the US



“What Types of Mortgages Do Fannie Mae and Freddie Mac Acquire? | FHFA.” *FHFA.gov*, 13 June 2024, www.fhfa.gov/blog/statistics/what-types-of-mortgages-do-fannie-mae-and-freddie-mac-acquire. Accessed 15 Aug. 2025.

MBS Have Already Been Valued, Recorded, and Sold

$$WAC = \sum \left(\frac{\text{Current balance of each mortgage}}{\text{Total current balance of all mortgages}} \times \text{Interest rate of each } i \right)$$

$$WAM = \sum \left(\frac{\text{Current balance of each mortgage}}{\text{Total current balance of all mortgages}} \times \text{Number of Months to Maturity} \right)$$

FHA & VA Loans are Assumable to Credit Qualified Borrowers

§ 203.510 Release of personal liability.

(a) Procedures. The mortgagee shall release a selling mortgagor from any personal liability for payment of the mortgage debt, if release is permitted by § 203.258 of this part, in accordance with the following procedures:

- (1)** The mortgagee receives a request for a creditworthiness determination for a prospective purchaser of all or part of the mortgaged property;
- (2)** The mortgagee or servicer performs a creditworthiness determination under § 203.512(b)(1) of this part if the mortgagee or servicer is approved for participation in the Direct Endorsement program, or the mortgagee requests a creditworthiness determination by the Secretary;
- (3)** The prospective purchaser is determined to be creditworthy under the standards applicable when a release of the selling mortgagor is intended;
- (4)** The prospective purchaser assumes personal liability by agreeing to pay the mortgage debt; and
- (5)** The mortgagee provides the selling mortgagor with a release of personal liability on a form approved by the Secretary.

There are Barriers to Assumptions

Challenges and Considerations

- **Qualification:** Buyers still need to qualify for the loan, meeting the lender's requirements for credit, income, and debt-to-income ratio.
- **Equity Requirement:** Buyers typically need to cover the difference between the sale price and the remaining loan balance, often requiring a substantial down payment.
- **Seller Liability:** Depending on the agreement, the seller may remain liable for the mortgage if the buyer defaults, unless a formal release of liability is granted. 

Fewer Assumptions than We Would Assume

An estimated 12.2 million loans, or 23 percent of active mortgages, are assumable, according to Intercontinental Exchange, a data and technology firm, though most conventional mortgages (which account for the majority of existing loans) are not. It's an embedded feature in mortgages backed by the Federal Housing Administration, which are widely used among first-time home buyers, as well as those from the Department of Veterans Affairs.

The number of assumptions completed is just a small fraction of home sales, but it's growing. More than 6,000 were completed in 2023, up 139 percent from 2022. This year, there were already 3,896 assumptions completed.