SELL901 REAL ESTATE

VA LOAN ASSUMPTION

2.499% Rate on $484,000 of the Purchase Price

- **A preapproval letter from a lender for the full purchase price is to be submitted with the offer.**
- **The current VA loan is with PennyMac and assumable regardless of whether you are a veteran.**
- **If an offer is accepted and the Buyer wishes to assume the loan, a letter of "Seller consent" will be provided to the Buyer to grant authorization to seek loan assumption.**
- **The total process may take 60-90 days. Funding occurs 7-10 days after closing. This is when the Buyer may take possession.**
- **The current loan balance is approximately $484,000. This amount, or slightly less at the time, will be the assumable amount. The balance for the purchase price will need to be cash or a 2nd mortgage (which can also be from PennyMac).**
- **A "funding fee" 0.5% of the current loan balance is required. However, the other typical lender costs are significantly less.**
- **Per PennyMac, a "conditional approval" should be easily obtained by 30 days. Therefore, the contract must include language stating that if the "conditional approval" is not issued by 30 days, the Seller may void the contract and return the earnest money.**
- **If a veteran Buyer assumes the loan, the Buyer must utilize their own VA entitlement.**
- **PennyMac may be reached at 888-381-2918. Some additional questions may also be answered online.**

- **The Seller wishes to work with the Buyer to help them take advantage of this great opportunity to secure a low rate on the majority of their total mortgage.**

FROM PENNYMAC:

What Is an Assumable Mortgage?

An assumable mortgage is a special type of financing that allows a buyer to "take over" the seller's existing mortgage and all of the terms that come with it, such as interest rates, the current balance, and repayment period.

Which Types of Mortgages Are Assumable?

The loans that most often qualify for assumption are VA and FHA loans, which are backed by the federal government. Under some specific circumstances conventional mortgages may also be assumable, but the majority of those loans are ineligible for assumption.

How Do Assumable Mortgages Work?

With an assumable mortgage, you take over payments and other responsibilities on the home according to the same exact mortgage terms — including the interest rate and monthly payments — which can be significantly lower than the current rates and terms available for new mortgages.

In other words, you may save tens of thousands of dollars on an assumed mortgage since you're effectively grandfathered in to what could be more favorable terms secured when the original loan was obtained. To illustrate these savings, let's take a look at an example case.

In the right circumstances, your buyer could save tens of thousands of dollars on an assumed mortgage since they're effectively grandfathered in on what could be more favorable terms secured when the original loan was obtained. Given this unique benefit, you could potentially leverage that savings to justify a higher asking price for your home.

To illustrate the savings and benefits of this unique transaction, let's explore an example scenario below from the buyer's perspective.

Saving Money with an Assumable Mortgage

Let's say Susan wishes to assume the mortgage on a $225,000 home and the current balance is $200,000. This means Susan can take over payments on the remaining $200,000 and fully enjoy the original terms allotted to the assumed mortgage. Susan will only need to secure an additional loan at a current interest rate to cover the $25,000 difference, or pay the difference in cash, similar to a traditional down payment.

Here is how these financial scenarios break down:

FHA Mortgage: A 30-year FHA loan for $225,000 with a fixed interest rate of 5% will result in monthly payments of $1,207.85 and a total cost of $434,826 over the life of the mortgage.

Assumable Mortgage: Assumption of a 30-year FHA loan 10 years in, with a remaining principal balance of $200,000 at the original interest rate of 2.3% results in a monthly payment of $769.60 and a loan cost of $277,056, paid over 20 years. A separate 30-year loan to cover the $25,000 difference (at 5%) results in a monthly payment of $134.21 and a total loan cost of $48,315.60.

	Conventional Mortgage	Assumable Mortgage + additional mortgage to make up the difference	Savings From Assumption
Principal	$225,000	$225,000 = $200,000 + $25,000	n/a
Interest Rate	5%	2.3% and 5%	n/a
Monthly Payment(s)	$1,208	$903.81 = $769.60 + $134.21	$304.19
Total Loan Cost	$434,826	$325,371.60 = $277,056 + $48,315.60	$109,454.40

*Note: Example above does not include mortgage insurance. Mortgage Insurance (MI) may change depending on the LTV, ask your loan officer for more information.

Both monthly payments, including the assumable mortgage and additional loan, will total $903.81, saving Susan $304.19 a month, and a tremendous total of $109,454.40 over the life of the loan!

It is also worth noting that the less equity a seller has in their home, the more attractive an assumable mortgage may become to a buyer. For instance, if that same $225,000 loan had a $210,000 unpaid balance, you'd only be responsible for the $15,000 difference, which could be an even greater savings.

VA Mortgage Requirements (not just for veterans)

The United States Department of Veterans Affairs has long offered one of the best home loan programs available for veterans and their dependents.

VA loan assumption requirements include:

- Meeting the VA standards for creditworthiness and income
- Assumption of all mortgage obligations, up to and including the obligation to repay the VA if you should default on the loan
- A "funding fee" equal to 0.5% of the current loan balance (only the principal amount)

Buyers who are VA-eligible (meaning that you would otherwise qualify for a VA home loan but prefer to assume the mortgage of a veteran), may trade their eligibility to purchase the home for the seller's eligibility. However, those individuals should first consult with their lender to identify any potential liability issues.

Getting Lender Approval

The seller does not have the final say on whether or not you're able to assume their mortgage; that decision lies solely with the original lender. You'll need to fill out an assumption packet, which will include a loan application, credit authorization, verification of income, an identity affidavit, and other forms you'll need to sign.

You will also need to provide financial information, such as:

- Pay stubs for the past 30 days
- W-2 forms for the past two years
- Bank statements for the past 60 days
- Property tax statements for the home you're hoping to purchase
- Homeowners insurance
- Tax returns for the last two years, if you are self-employed

If you end up borrowing from more than one lender to complete the mortgage assumption, be sure that each lender is informed of all loan activity for the home.

Different lenders may require slightly different information so prepare ahead of time for varying requests during the financial evaluation process.

During this time, be sure to keep all of your documentation readily accessible so you can promptly answer any follow-up questions your lender should have.