

VA home loans were introduced in 1944 as part of the GI Bill of Rights Act to ease the transition from military to civilian life. They come with a long list of benefits like no downpayment requirements and lower interest rates.

In this article, we'll discuss everything you need to know about the VA loan assumption.

What Is the VA Loan Assumption?

The VA loan assumption is perhaps the **most overlooked benefit** of VA home loans. A loan assumption can be defined as the **transfer of one's liability for an existing mortgage to another eligible applicant**.

Need to learn the basics? Here's more on the **VA loan types**.

What Veterans Need to Know About VA Loan Assumption

As opposed to a traditional home purchase (which involves selling the house) a VA loan allows you to let someone else assume your interest rates, monthly payments, and balance, assuming they qualify for the loan.

To assume a mortgage, the borrower must meet certain lenders' requirements such as:



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- Agreeing to **take over all the liabilities** associated with the mortgage.
 - **Submitting evidence of on-time mortgage payments** for the previous twelve months.
 - Having a debt-to-income ratio **less than 41%**.
 - Willing to pay **funding fees**.
 - Having **enough residual income**.

WHY WOULD SOMEONE BE WILLING TO ASSUME A MORTGAGE?

Assuming a mortgage can come with benefits like the below.

- **You can qualify for lower interest rates.** Because a buyer assumes the same terms as the existing loan, they can take advantage of a locked interest rate which might be lower than the current loan rates.
- While assuming the loan, you are required to **pay a small closing fee of only 0.5%** of the loan amount. So, unlike traditional loans, you could save thousands. However, some surviving spouses or



veterans might be excluded from the closing fee if they receive a pension, suffer from a service-related disability or are the surviving spouse of a deceased veteran who died of a service-related cause.

- You can also opt to assume a VA loan **in case of a divorce**, and you wish to keep the home’s remaining equity.

WHAT’S THE CATCH?

While assuming a VA home loan can be a great option for both borrower and seller, assuming the loan in the wrong way can affect your credit score and VA loan entitlement.

Make sure to protect your future borrowing options through the following ways:

- Homeowners must obtain the “release of liability” before closing. This could protect your credit score in case the new borrower defaults in any way.
- You must also ask the borrower to substitute their own VA loan benefits instead of using yours. This could help you restore your entitlement and use the “no downpayment option” in the future.

WHAT’S IN IT FOR THE HOMEOWNERS?

Assuming a VA home loan can offer a variety of benefits to borrowers. But why would a homeowner be willing to let someone assume their loan?

For starters, a homeowner could opt for the “**full-restoration of entitlement**” by letting someone else assume the mortgage. This allows them to borrow another loan without being subjected to VA loan limits.

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26th. The Federal Reserve has indicated they'll raise rates several times in 2022. Refi b

Refinance

Select loan amount

APR

Daily Mortgage Rates	
DEC 25, 2021	JUL 6, 2022
1.99% RATE	4.13% RATE

↑

1.99% APR

4.42% APR

2.50%

2.00%

Calculate Payment

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Additionally, transferring the mortgage liability to another party can be beneficial for a person moving and leaving their home behind.

How to Assume a VA Home Loan

To clear up any confusion, you do not have to be a veteran to assume a VA mortgage. You might be able to purchase your dream home if you assume a VA mortgage and save some money at the same time.

Generally, there are two ways to assume a mortgage.

- The new buyer is a veteran who is eligible for VA home loans and is willing to substitute **their eligibility** for the seller's eligibility.
- The new buyer meets the VA criteria for mortgage payments. This is the most recommended way to assume a mortgage, as the original homeowner is no longer responsible for timely payments.

In order to get started, you need **permission from the lender and the VA.**

In some cases, permission from the lender is sufficient.

Learn more about Certificates of Eligibility.

REQUIREMENTS TO ASSUME A VA LOAN

The following conditions must be met to meet the requirements of assuming a mortgage:

- You must have a **current loan.**
- The new buyer must adhere to **credit and income requirements** defined by the VA and the lender.



- **The new buyer must assume all mortgage obligations.**
- If not, any remaining dues must be paid before the loan closing. The **closing fee** must be paid either by the new buyer or the original homeowner.
- The **processing fee** must be paid in advance.

Who Can Assume a VA Mortgage?

Usually, a **veteran, active military member, reservist, national guard and the surviving spouse** can assume an existing VA loan. In some cases, **civilians** who can meet the VA's credit and mortgage payment requirements can also qualify for the loan.

Though assuming a VA loan comes with a long list of benefits, it can also affect your future chances of qualifying for a \$0 down mortgage if not done right.

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Refinance	How much do you need?		
The Federal Reserve has indicated they'll raise rates several times in 2022. Refi before they meet next on July 26th.	\$100,000	\$125,000	\$150,000
	\$200,000	\$250,000	\$300,000
	Calculate Payment	\$400,000	\$450,000

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Here are the pros and cons that come with assuming a VA mortgage.

VA LOAN ASSUMPTION BENEFITS

- With the VA loan assumption, you don't need to apply for a VA loan. This makes your work **easy and streamlines the application procedure**. This can also prevent you from paying high closing and appraisal fees.



- First-time buyers must pay processing fees of 2.15%. However, assuming a VA loan requires you to pay **only 0.5%** as processing fees.
- You can assume **lower interest rates** than what you qualify for on your own.
- For original homeowners, the **entitlement can be recovered** after you obtain your release of liability.

VA LOAN ASSUMPTION CHALLENGES

- VA loan assumption is only possible if the new borrower agrees to **use the house as a primary residence**. The house cannot be used as an investment property or vacation home.
- If the new buyer is a civilian, **the remaining VA entitlement of the original buyer will not be recovered**. This can stop the service member from using their VA loan benefits fully.
- You do not need to visit a regional office for approval if your lender has **automatic authority**. However, if this is not the case, you would have to seek the lender's permission and the VA to assume a mortgage.
- A veteran willing to assume a VA mortgage **might be required to pay a downpayment** in some cases.

Exceptions to VA Approval for Assumptions

According to the guidelines defined by the VA, **the situations listed below do not require a VA approval to move forward with a VA loan assumption:**

- In the event of the borrower's death, the loan was assumed by a relative.
- The transfer/assumption occurred due to legal separation or divorce, and the spouse became the sole owner of the house.
- The assumption did not require the transfer of rights of occupancy, and the owner remained the beneficiary.



- The assumption occurred as a result of a spouse/child becoming a joint owner of the property.
- The assumption required the creation of subordinate to the lender's security instrument and did not include the transfer of occupancy rights to the property.
- A security interest in household appliances for purchase money was created in the assumption.

There might be **other situations** that do not require the VA's approval. Make sure to check with your lender before opting for the VA loan assumption.

Lender's Role During VA Loan Assumption

The lender's participation during VA loan assumption depends on whether your loan closing date was before or after **March 1, 1988**.

If the loan was closed before March 1, 1988, the lender's approval is not required as these loans are freely assumable. However, if your loan was closed after March 1, 1988, you must get in touch with a VA-approved private lender who can work with assumable mortgages.

Refinance

Select loan amount \$300,000

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Daily Mortgage Rates

APR	DEC 25, 2021	JUL 6, 2022
4.00%		
3.50%		
3.00%	1.99% RATE	4.13% RATE
2.50%	1.99% APR	4.42% APR
2.00%		



Original owners must also ask their lenders to obtain the **mortgage**

liability release as it could protect your **credit score** if the new owner defaults on paying back the loan.

While certain circumstances do not require a lender's participation, it is important to get in touch with one to get a better understanding of the process for assuming a mortgage.

VA Loan Assumption With Missed and Late Payments

As stated above, there are **two ways** to assume a VA mortgage. You can either **prove your eligibility** as a veteran by meeting the service requirements or meet the income and credit requirements by applying as a civilian.

However, in both cases, the **new borrower must guarantee on-time payments of the assumed mortgage**. According to VA **Pamphlet 26-7, section 5-23**, the loan must also be current to qualify for the assumption. If not, all dues must be paid before the loan closing.

In addition to being creditworthy, the lender also makes sure that the **new borrower agrees to assume all loan liabilities and obligations**, including repaying the VA in case of a claim.

VA Loan Assumption Fees

In addition to paying **0.5% funding fees**, lenders are also permitted to charge a reasonable fee for assumption plus the cost of credit score reports. The funding fees must be paid within **15** days of assuming the loan.


According to the VA mortgage rules listed in the loan handbook by the VA, a lender with automatic approval authority can charge a lender's fee of



A lender with automatic approval authority can charge a lender's fee of **\$300** plus the credit score report cost. A lender without automatic approval authority can charge up to **\$250**, excluding the credit score report cost.

Refinance

Select loan amount **\$300,000**



Calculate Payment

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APR

4.00%

3.50%

3.00%

2.50%

2.00%

Daily Mortgage Rates

DEC 25, 2021	JUL 6, 2022
1.99% RATE	4.13% RATE
1.99% APR	4.42% APR

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How much do you need?

	\$100,000	\$125,000	\$150,000
	\$200,000	\$250,000	\$300,000
	\$400,000	\$450,000	\$500,000

Additional fees might imply depending upon state laws and your circumstances.

While paying a 0.5% funding fee is mandatory for loan assumption, if your situation fits any one of the following, **you might be exempt from the fees altogether.**

- You receive VA compensation for a service-related disability.
- You are eligible to receive VA compensation for a service-related



DISABILITY.

- You receive compensation for pre-discharge disability.
- You are a spouse of a Veteran who either went missing in action (MIA), was a prisoner of war (POW), died in the line of duty, or died from a service-related condition.

VA Loan Assumption Divorce

According to the **VA Pamphlet 26-7**, in some cases, veterans can seek **release of liability** when their spouse agrees to take over the property during the divorce, where the spouse was the **joint owner** of the VA loan.

The above-stated law clearly states that the spouse of a service member can assume a VA loan from their beneficiary if both were jointly liable to the loan.

Additionally, the spouse can ask for the release of liability, leaving the Veteran as the only owner of the property and liable for the loan.

Per the latest amendments, loans closed after March 1, 1988, require approval by the lender, the VA, or both. To discuss the desired terms regarding loan assumption, it may be helpful to contact a VA-approved private lender.

If the loan assumption feels complicated to the spouse, they can opt for **VA loan refinance** and **refinance the existing VA loan into a non-VA loan**.

IS OPTING FOR VA LOAN ASSUMPTION A WISE CHOICE DURING A DIVORCE?

While VA loan assumption can help a spouse take over the liability of the loan from the veteran, it might not be the best option. If the loan is assumed by a civilian spouse during a divorce, the veteran/service member **cannot opt for the release of liability**.



This could affect their VA loan entitlement, stopping them from opting for **\$0-down mortgage** options in the future. Additionally, missed or late payments can adversely affect a Veteran's credit score, **preventing them from receiving their benefits.**

Release of Liability During a VA Loan Assumption

During VA loan assumption, **the original buyer must ask and obtain the release of liability before the loan closing.**

But, what is the release of liability?

Release of liability is a legal document stating that the original buyer no longer stands responsible for the loan payments and other liabilities associated with it. The new borrower must be solely liable for all the terms and conditions of the mortgage, including repaying the VA in case a claim is filed.

The original owner must fill and submit the VA form 26-6381 to request the release of liability from the VA mortgage.



Your credit score could take a significant hit if the new buyer defaults on

the loan repayment without release.

Using VA Entitlement After Assumption

In addition to requesting the release of liability, you must also formally **substitute their entitlement for yours**. If not, your entitlement could be tied to their mortgage, preventing you from borrowing another \$0-down mortgage.

After obtaining your release of liability and substituting the entitlement, you can borrow another VA loan with partial entitlement. You can also opt for **one-time restoration of entitlement**, which could help you get a mortgage without any VA loan limits.

VA Loan Assumption Frequently Asked Questions

Listed below are some frequently asked questions (FAQs) on VA loan assumption.

CAN NON-VETERANS ASSUME A VA HOME LOAN?

If the new buyer can meet all the minimum credit and income requirements, they are eligible for the loan—**even non-veterans or civilians**.

However, if the buyer is a civilian, the seller will **lose their VA loan benefits** as their entitlement will still be tied to the assumed mortgage.

Here are some of the lender's requirements you must meet to qualify for the assumption.

- You must agree to take over all the liabilities associated with the



- mortgage.
- You must have a 12-month history of on-time mortgage payments.
 - You must agree to pay 0.5% of the loan balance as the funding fee.
 - You must meet all the income and credit requirements of the lender.
 - You must have enough residual income.
 - Your debt-to-income ratio must be less than 41%.

WHO CAN BE EXEMPTED FROM THE VA LOAN ASSUMPTION FUNDING FEE?

If you can meet any **ONE** of the following conditions, your funding fee for VA loan assumption may be waived.

- You receive VA compensation for a service-related disability.
- You are eligible to receive VA compensation for a service-related disability.
- You receive compensation for pre-discharge disability.
- You are a spouse of a Veteran who either went missing in action (**MIA**), was a prisoner of war (**POW**), died in the line of duty, or from a service-related condition.

CAN I BORROW ANOTHER LOAN IF I HAVE HAD A VA LOAN ASSUMED FROM ME?

You can borrow another VA loan even if you have had another loan assumed from you, **given your VA loan entitlement is not tied with the previous loan.**

While getting your VA loan assumed, make sure that you substitute the new buyer's entitlement with yours so that your entitlement is not tied up to their mortgage.



However, you must also remember that **substituting the entitlement is only possible if the new owner is an eligible Veteran or a service member.** You won't substitute your entitlement if the borrower is a civilian, like your spouse.

How to Find Assumable VA Mortgage

There are several easy ways to find assumable VA mortgages in your area.

THROUGH NEWSPAPERS

Although the world is increasingly shifting towards digital media, print media is still alive and well. You can search through your local newspaper to find assumable mortgages, which the sellers could have listed.

If you manage to find one, reach out to them to learn more about their conditions.

BROWSE THE INTERNET

There are several websites, like [TakeList](#), where you can find listings for assumable VA mortgages. These sites provide you with all the details, including the balance amount, interest rate, and seller's exchange expectations.

GET HELP FROM A REAL ESTATE AGENT



An even easier method of finding assumable VA mortgages is to get in touch with a real estate agent who can access MLS listings to help you find your next home.

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