When the house won't sell, sell the mortgage

Assumable mortgages can help homeowners get out when they owe more than the value.

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Homeowner Judith Smith, right, is using Brad Clemons and Dana Hall's HomeAssume.com, a Web-based sales tool, to find someone to take over the assumable mortgage on her Aurora townhome. (Brian Brainerd, The Denver Post)

Unable to sell her Aurora town home for what she owes on it, Judith Smith is looking for someone to take over her mortgage.

"I'm very interested in selling and moving," Smith said. "But factoring in the Realtor's commission, I am pretty much out of the ballpark."

Three years ago, Smith said, townhomes like hers sold for $140,000 and up, but a nearby foreclosure is on the market for $99,000.

Even if she could sell for the $115,000 she owes on her mortgage, Smith said she wouldn't be able to cover the $6,900 in commissions to agents on each side of a sale.

Smith's predicament is becoming more common as falling home values make it increasingly difficult for home owners to sell without bringing money to the table.

The solution Smith is pursuing, however, is not conventional — or at least hasn't been in a long time — and neither is the high-tech route she is taking.

She listed her house on HomeAssume.com, a Lone Tree-based website recently started by Brad Clemons and Dana Hall, two mortgage-industry veterans. HomeAssume.com matches sellers holding assumable mortgages with buyers looking for a more affordable way into a home. Sellers pay a fee to list on the site.

An assumption allows a buyer, who must still qualify with the lender, to step into a mortgage without having to fork over a down payment or pay hefty closing costs.

That could be particularly attractive to some would-be buyers, especially since lenders are requiring larger down payments or mortgage insurance to protect themselves in a weak real estate market. Even FHA loans will soon limit sellers from financing the 3 percent down payment that is required.

And typically, assumable mortgages made in recent years carry interest rates below the current market. HomeAssume.com comes in by matching sellers and buyers, allowing sellers to bypass commissions, which can run 5 percent to 6 percent.

But some industry experts remain skeptical that loan assumptions will become a significant part of the housing market.

"Given certain circumstances, it could make sense, but you just don't see many of these loans," said Rod Cameron, president-elect of the Colorado Association of Mortgage Brokers.

A long stretch of declining interest rates since 1981 eliminated the practicality and popularity of assuming mortgages, a practice common in the 1960s and 1970s.

FHA and VA mortgages are assumable, as are many conventional adjustable-rate mortgages. But many investor-financed mortgages, popular earlier in the decade, are not. Loan documents will tell whether a mortgage is assumable or not.

Government-insured loans, mostly through the FHA, were only 5.8 percent of the market three years ago when privately financed mortgages were the rage. But last month, they made up more than 29 percent of all loan applications, according to the Mortgage Bankers Association.

Hall and Clemons predict that trend, combined with rising interest rates, could bring mortgage assumptions back into vogue.

The 5.75 percent Smith pays on her 30-year, fixed-rate FHA loan is below the 6.5 percent rates now available, something she hopes will entice buyers.

Smith estimates having someone else assume her mortgage will cost about $800, an amount below the $2,000 or more it might cost a buyer to get a new mortgage.

Clemons thinks the win-win situation for buyers and sellers will make mortgage assumptions much more common. Hall estimates about 82,000 mortgages in Colorado and 15 million mortgages nationally are assumable.

An assumption won't work in cases where a seller owes significantly more on a mortgage than the home is worth or where the owner holds two mortgages on the same property.

Buyers must occupy the home behind the mortgage they are assuming and should carefully study interest rate adjustments before they step into an adjustable-rate loan, Hall said.

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