

Divorce, High Interest Rates, and Your Mortgage: Is Assumption the Answer?

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With high interest rates impacting refinance options, more divorcing spouses are seeking to assume their mortgage.



Navigating a divorce is complex, and [dividing marital assets](#) often brings significant financial challenges. One of the largest assets, and potentially largest hurdles, is the [marital home](#). For years, the standard approach [when one spouse wanted to keep the home](#) involved refinancing the mortgage to remove the departing spouse's name and buy out their equity.

However, the sharp rise in interest rates over the past couple of years has thrown a

wrench into this traditional practice. Spouses who secured mortgages when rates were at historic lows (often in the 3% range) now face the prospect of refinancing at rates hovering around 7% (as of early 2025). This difference can translate into dramatically higher monthly payments, potentially adding \$1,000 or more, making keeping the home through a refinance unaffordable for many.

This challenging environment has brought another option to the forefront: **mortgage assumption**. While not a new concept, it's gaining critical importance for divorcing couples seeking financial stability post-divorce. Below is a brief review of [mortgage assumption](#) compared to the more traditional paths of refinancing or selling the home.

1. What Does It Mean to Assume a Mortgage?

a. Assumption vs. Refinancing:

- **Mortgage Assumption:** This is when a qualified individual (in this context, the spouse remaining in the home) takes over the *existing* mortgage from the original borrowers (often both spouses). The key benefit is that the original terms of the loan – including the **interest rate**, repayment period, and current principal balance – remain unchanged. The assuming spouse becomes solely responsible for the debt.
- **Refinancing:** This involves obtaining a *brand new* mortgage loan to pay off the existing one. The original mortgage ceases to exist. The new loan comes with the *current* market interest rate and new terms. Any equity payout to the departing spouse is often rolled into this new, larger loan amount.

The fundamental difference lies in keeping the old loan versus getting a new one. Assumption preserves the original (potentially much lower) interest rate, while refinancing means adopting the current, higher rates.

Another difference: Assuming the mortgage does not allow the spouse who is remaining in the home the option of borrowing against the property in the event that there must be an equity buyout of the other party. This would need to be a separate transaction, such as obtaining a line of credit. Refinancing allows the spouse to not just assume the mortgage in their name, but also the option of borrowing funds for a buyout.

b. Assumption in a Divorce Context:

In a divorce, mortgage assumption allows one spouse (the "assuming spouse") to take sole legal and financial responsibility for the mortgage which was originally held jointly. The lender must approve the assuming spouse based on their individual financial qualifications. If approved, the lender typically issues a "release of liability" for the other spouse (the "departing spouse"), formally removing their obligation from the loan. This achieves the crucial goal of separating the couple's financial ties related to the mortgage without altering the loan's favorable interest rate.

2. Why is Mortgage Assumption So Important in Divorce Today?

a. Removing the Departing Spouse's Liability:

When a couple divorces, it's essential for the spouse leaving the home to be removed from the mortgage obligation. If their name remains on the loan:

- Their credit score remains tied to the timely payment of the mortgage, even if the divorce decree assigns the payment responsibility to the other spouse. A missed payment by the resident spouse directly harms the departing spouse's credit.

- The outstanding mortgage debt counts against the departing spouse's debt-to-income ratio, making it significantly harder for them to qualify for their own mortgage or secure other loans in the future.
- In a worst-case scenario (foreclosure), the departing spouse could still be held liable for the debt.

Therefore, divorce agreements and courts almost always require the spouse keeping the home to remove the other spouse's name from the mortgage within a reasonable timeframe (often 3-6 months, though sometimes longer).

b. The Problem with Traditional Refinancing:

Historically, refinancing was the standard method to remove a spouse's name. The spouse keeping the home would apply for a new loan in their name alone, paying off the joint loan. However, with current interest rates significantly higher than those from 2-3 years ago, this path can lead to unaffordable payment shock, potentially forcing the sale of the home when neither party desires it.

c. Assumption as the Solution:

Mortgage assumption bypasses the interest rate problem. By allowing the assuming spouse to take over the existing low-rate loan, it makes keeping the home financially feasible while still achieving the necessary release of liability for the departing spouse. It preserves the affordable payment structure agreed upon years ago with the lender. While parties might sometimes agree to delay the removal of the departing spouse's name, assumption offers a cleaner, more definitive, and often court-preferred solution within the expected timeframe.

3. How Available is Mortgage Assumption in Divorce Cases?

The ability to assume a mortgage isn't universal; it largely depends on the *type* of mortgage.

a. Prevalence and Loan Types:

- **Government-Backed Loans (FHA, VA, USDA):** These loans are generally assumable by design, provided the person assuming the loan meets the lender's and the respective agency's qualification standards. This has always been a feature of these loan programs.
- **Conventional Loans (Fannie Mae, Freddie Mac):** Most conventional loans contain a "due-on-sale" clause. This clause typically requires the loan to be paid in full upon transfer of the property title, effectively preventing assumption in a standard sale. **HOWEVER, there's a critical exception relevant to divorce.**

The Garn-St. Germain Depository Institutions Act of 1982: This federal law provides key protections for homeowners. Specifically, it prohibits lenders from exercising the due-on-sale clause for certain transfers, including transfers to a spouse or child resulting from a divorce decree, legal separation agreement, or incidental property settlement agreement.

What this means: Even if your conventional mortgage has a due-on-sale clause, your lender *generally cannot block* an assumption by your spouse following a divorce *if* that spouse independently qualifies for the loan.

b. Lender Inclinations:

While Garn-St. Germain provides a legal pathway, the *process* can vary. Lenders must comply with the law, but they still have established procedures and qualification requirements. Some may be more administratively familiar or efficient with processing divorce-related assumptions than others. The *type* of loan (government vs. conventional) remains the most significant factor initially, followed by the assuming spouse's qualifications. No major lender can categorically deny assumptions mandated permissible under Garn-St. Germain, but they *will* enforce qualification standards.

c. Lender Criteria for Assumption:

Lenders need assurance that the spouse assuming the loan can afford the payments independently. They will assess the assuming spouse based on criteria very similar to underwriting a new loan:

- **Credit Score:** A satisfactory credit history and score (requirements vary).
- **Income Verification:** Proof of stable and sufficient income to cover the mortgage payment plus other debts and living expenses.
- **Debt-to-Income Ratio (DTI):** The ratio of monthly debt payments (including the assumed mortgage) to gross monthly income must meet the lender's guidelines.
- **Documentation:** The lender likely will require the divorce decree or separation agreement specifying the property transfer and mortgage responsibility, along with standard financial documentation (pay stubs, tax returns, bank statements).

d. Assumption vs. Refinancing/Purchase Qualification:

Qualifying for an assumption uses essentially the same financial yardsticks (credit, income, DTI) as qualifying for a refinance or a new purchase mortgage.

- **Is it easier?** Not necessarily. The standards are comparable. It might *feel* easier because the loan amount isn't increasing (unless the existing loan balance is very

high relative to income). However, the assuming spouse must demonstrate they can handle the *entire* existing payment alone, which might be challenging if they were previously reliant on dual incomes.

- **Is it harder?** It can be, if the assuming spouse has limited income or higher individual debt compared to when the couple originally qualified together.

The key difference isn't the difficulty of the financial qualification itself, but the *outcome*: assumption preserves the low rate, while refinancing imposes the current higher rate.

4. How Can Homeowners Learn if Assumption is an Option?

a. Contacting the Lender:

- **Check Documents:** First, review your original mortgage note and deed of trust/mortgage document. Look for clauses mentioning "assumption" or "due-on-sale."
- **Call Your Loan Servicer:** This is the company you make your payments to. Have your loan number ready. Explain you are exploring options related to a divorce and want to understand their specific process and requirements for mortgage assumption under the Garn-St. Germain Act exception for divorce transfers.
- **Information vs. Application:** Over the phone, they may provide general information about an assumption (especially for FHA/VA loans) and their process. However, they cannot approve an assumption without a formal application package, including the assuming spouse's financial documentation and a copy of the relevant legal document (separation agreement or divorce decree).


b. Discreet Inquiries Before Divorce:

This is challenging. A spouse who is currently on the loan can certainly call the lender to ask about the *general* process for assumption in a divorce scenario. However, the lender cannot process or pre-approve an assumption based on a hypothetical situation. The formal process usually requires evidence that the transfer of ownership and responsibility is legally mandated (i.e., via a signed agreement or court order). Discussing this openly with your spouse and divorce attorneys early is usually more productive.

c. "Rules of Thumb" for Eligibility:


While there's no substitute for talking to the lender and applying, consider these factors that influence eligibility:

- **(a.) Lender/Loan Type:** Is it FHA, VA, or USDA (generally assumable)? Or Conventional (assumable in divorce under Garn-St. Germain if you qualify)? This is the biggest factor.
- **(b./c.) Equity/Principal Owed/Value (LTV):** While less critical than for a new loan, the [Loan-to-Value \(LTV\)](#) ratio might be considered. The primary focus, however, is the ability to pay. The amount of equity mainly impacts the buyout negotiation between spouses, not typically the lender's assumption decision directly unless the loan is significantly underwater.
- **(d.) Current Interest Rate:** This doesn't affect *eligibility* for assumption, but it defines the *motivation* – the lower the rate, the more beneficial assumption becomes.
- **(e.) Assuming Spouse's Financials:** This is paramount. Strong credit score, sufficient and stable verifiable income, and a manageable DTI are generally non-negotiable requirements for lender approval.



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Conclusion: Explore Assumption Early

With today's high-interest-rates, mortgage assumption has shifted from a niche option to a potentially crucial financial strategy for divorcing couples. It offers a pathway for one spouse to retain the marital home while keeping the benefit of a previously secured low interest rate, provided the loan type allows it (which, thanks to Garn-St. Germain, includes many conventional loans in a divorce context) and the assuming spouse meets the lender's qualification standards.

If you are considering divorce and want to keep the marital home, investigate the possibility of assumption early in the process. Contact your loan servicer, understand their requirements, and realistically assess the assuming spouse's ability to qualify based on their sole income and credit profile. This proactive approach could make the difference between keeping your home affordably and being forced to sell due to prohibitive refinancing costs.

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About the Author: [Nicole K. Levy](#) is a Massachusetts divorce lawyer and family law attorney for Lynch & Owens, located in [Hingham](#), Massachusetts and [East Sandwich](#), Massachusetts. She is also a mediator and conciliator for [South Shore Divorce Mediation](#).

Schedule a consultation with [Nicole K. Levy](#) today at (781) 253-2049 or send [her an email](#).

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