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Assumable Mortgages in the U.S.: Borrower Incentives, Adoption Barriers, and Market-Level Implications

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Abstract: Assumable mortgages are blowing up as a potentially important feature of U.S. home loans, particularly with rising rates. Assumability is normally relegated to the basement of refinancing, securitization and prepayments, it affects borrower decision-making, mobility, prices and housing market liquidity. This survey integrates theoretical, empirical and simulation analyses to consider the operation of assumable mortgages in the context of rising rates. We examine borrower incentives at the margin based on interest-rate spreads, market constraints due to institutional and administrative complexities, and market-wide effects on housing supply and prices. The evidence shows that transferability can potentially alleviate mortgage interest rate lock-in by facilitating transactions otherwise held back, but that liquidity and information frictions restrict the use of transferability. The review also underscores the pricing of in-situ low-rate mortgages into housing prices and macro-financial effects of transferability in a mostly fixed-rate mortgage market. This article synthesises insights from the theory of mortgage contracts, search-and-matching models, and the empirical literature on housing markets and suggests that assumable mortgages are an overlooked but potentially relevant form of housing finance.

Keywords: Assumable mortgages; Mortgage rate lock-in; Housing mobility; Interest rate spread; Housing liquidity; Mortgage contract design; Housing affordability; Capitalization effects.

INTRODUCTION

The U.S. mortgage market is among the world's largest and most significant credit markets, contributing to household welfare and wealth building, financial stability and macroeconomic performance. Home mortgages facilitate home ownership - historically a key component of middle class wealth accumulation - and link households to capital markets via securitization and government-sponsored lending programs [Green, R. K., & Wachter, S. M. 2005; Fuster, A., & Vickery, J. 2015]. Over recent decades, the creation of mortgage-backed securities (MBS) and the rise of the 30-year, fixed-rate mortgage have transformed housing finance, making credit more widely available but also more complex and risky [Green, R. K., & Wachter, S. M. 2005; Fuster, A., & Vickery, J. 2015]. Among the innovations within this system, assumable mortgages are a less-studied contractual characteristic that can potentially impact borrowers, lenders, and the housing market.

A mortgage is considered assumable if a homebuyer can assume the seller's loan (and thus, the interest rate, outstanding balance, and loan term) with the lender's permission. While in the United States, the majority of conventional loans are not freely assumable, loans insured or guaranteed by the government agencies (the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA) generally allow assumption, subject to certain conditions [Ginnie Mae. 2023]. While assumability has traditionally been a factor of little economic significance in times of stable or falling interest rates, it has economic value in times of rising interest rates. As interest rates rise significantly above the rate of existing loans, the option to assume the lower-rate loan can help improve affordability for borrowers.

The importance of assumable mortgages has increased in the aftermath of recent interest rate increases. After record-low rates during the COVID-19 pandemic, U.S. mortgage rates have spiked since 2022, resulting in higher costs and decreased affordability. This change is a partial driver of what researchers call a "lock-in phenomenon", where homeowners with low-interest mortgages are reluctant to sell and refinance their mortgage at a higher rate [Goodman, L., & Zhu, J. 2023]. Lock in has been linked to housing supply shortages, lower transaction activity and lower mobility. In this regard, assumable mortgages can help mitigate the effect of lock-in by enabling borrowers to bequeath low-rate mortgage terms to potential buyers, thereby facilitating real estate transactions.

The subject is more broadly relevant to borrower behaviour, features of mortgage contracts, and housing market mobility. Mortgage contracts

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influence the allocation of interest rate risk, and incentives for mortgage mobility, refinancing and home equity extraction [Green, R. K., & Wachter, S. M. 2005]. While much has been written about the pricing of refinancing and prepayment risk, there has been less attention devoted to the impact of assumability on price, negotiation and turnover. At the loan level, assumability affects risk allocation for interest rate risk, especially for government-insured mortgages. At the market level, the use (or non-use) of assumable loans can impact turnover, prices and mobility.

Despite its potential importance, there is limited literature on assumable mortgages. Government housing agency policies provide a regulatory context for assumptions [Ginnie Mae. 2023], but there is little empirical evidence on interest, awareness, costs and price effects of below-market rates. There is uncertainty about some aspects. For example, when do buyers and sellers seek assumptions? How much of a barrier is the paperwork? What are the consequences of the value of an assumable low rate mortgage for house prices (if any) and how is it split between buyer and seller?

And what are the implications of assumability for the housing market? In a highly securitised market with long-term fixed-rate mortgages, changes in borrower mobility and loan transferability can influence the liquidity and adjustment processes of the housing market [Fuster, A., & Vickery, J. 2015]. And as interest rates become more volatile, the interplay between housing contract terms (such as assumability) and borrower behavior and housing market dynamics is of great interest to policymakers, lenders and academics.

Table 1: Summary of Key Literature

Reference	**Findings (Key Results and Conclusions)**
[Sims, D. P. 2007]	While on rent control, the paper shows how housing constraints (contractual and/or regulatory) impact transactions and prices. It demonstrates how regional housing frictions can distort mobility and housing price adjustments - a lesson that's pertinent to the assumability constraint.
[Lea, M. J. 1991]	Demonstrates that mortgage features (fixed vs adjustable, transferability) affect interest rate risk and macroeconomic risks. Features (e.g. transferability) affect borrower mobility and vulnerability.
[Deng, Y. *et al*., 2000]	Shows that borrowers are highly sensitive to interest rate differences in refinancing and termination choices. The results suggest that assumable low-rate loans may have an impact on transaction incentives in a rising-rate environment.
[Bennett, P. *et al*., 2001]	Verifies that small interest rate differentials lead to borrower refinancing. Implies that refinancing incentives are low (high-rate environments) and other contract design elements (such as assumptions) become more important.
[Ferreira, F. *et al*., 2010]	Offers preliminary evidence that homeowners with low rates are less mobile. This will have a negative impact on mobility and provides theoretical justification for the use of assumable mortgages to reduce mobility costs.
[Foote, C. L. *et al*., 2008]	Estimates that borrower equity and contract design have a strong effect on default. Contract terms affect household welfare, an implication for evaluating long-term assumable loans.
[Fuster, A., & Zafar, B. 202]	Demonstrates that modest changes in interest rates have a strong effect on home buying. This reinforces the view that the passing on of a low interest rate through assumption could have significant impacts on house prices and demand.
[Bernstein, A. *et al*., 2020]	Offers compelling quantitative evidence that the lock-in effect due to rising rates materially affects homeowner mobility. Identifies other market liquidity problems that can be addressed by assumable mortgages.
[Adelino, M. *et al*., 2012]	Provides evidence that historically low rates boosted refinancing and home buying, confirming housing markets' sensitivity to rates. The research highlights the role of mortgage contract details for market cycles.
[Fonseca, J. *et al*., 2023]	Demonstrates mortgage rates significantly reduce housing supply by deterring home sellers. Suggestion that assumable low-rate mortgages can alleviate supply shortage at high rates.

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PROPOSED THEORETICAL MODEL

Borrower–Lender–Market Interaction

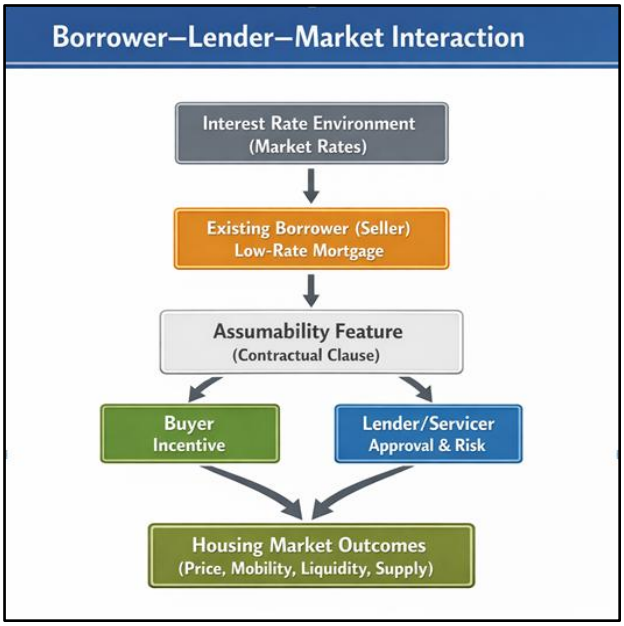

Figure 1: Conceptual Block Diagram: Borrower–Lender–Market Interaction

The first diagram presents a simplified structural flow of how assumable mortgages operate within the housing finance ecosystem.

Interpretation

This structure shows that:

- Market rates are a macroeconomic variable [Campbell, J. Y. 2013].
- The clause is valuable when interest rates rise above the rate of an existing mortgage.
- Borrower incentives are created by reduced payments.
- Adoption is affected by lenders' qualification and administrative policies.
- Market-wide adoption impacts housing turnover, prices and supply.

Our approach is consistent with macro-housing models that highlight the role of mortgage contracts on mobility and turnover [Wheaton, W. C. 1990].

Borrower Incentive Mechanism Diagram

This second diagram focuses specifically on borrower decision-making under rising-rate conditions.

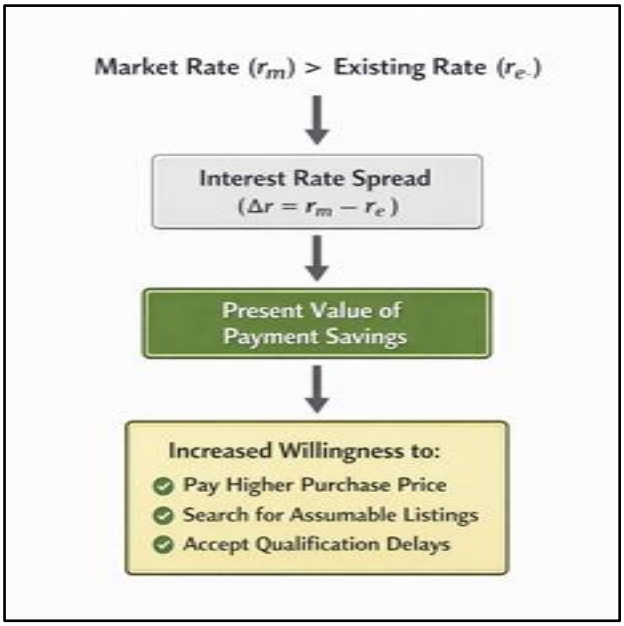

Figure 2: Conceptual diagram on borrower decision-making under rising-rate conditions

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Economic Logic

If:

[\Delta r = r_m - r_e > 0]

Then the present value (PV) of savings from assuming a below-market mortgage is:

[PV = \sum_{t=1}^{T} \frac{(PMT_m - PMT_e)}{(1 + r_d)^t}]

Where:

- (PMT_m) = payment at market rate
- (PMT_e) = payment under existing mortgage
- (r_d) = discount rate
- (T) = remaining loan term

Mortgage refinancing studies have found borrowers are very sensitive to spreads [Agarwal, S. *et al*., 2013]. By the same logic, assumptions should also be spread sensitive, particularly during those times when refinancing is unappealing because interest rates are high.

Adoption Barrier Block Diagram

Even with financial incentives, adoption may be constrained by frictions.

Main Frictions in the Literature

- Housing market search frictions decrease matching efficiency [Wheaton, W. C. 1990].

Borrower qualification impacts loan assumability [Keys, B. J. *et al*., 2016].

- Liquidity constraints (down payment to cover price - balance) may prevent adoption.

Even with permitted assumability, these constraints affect take-up rates.

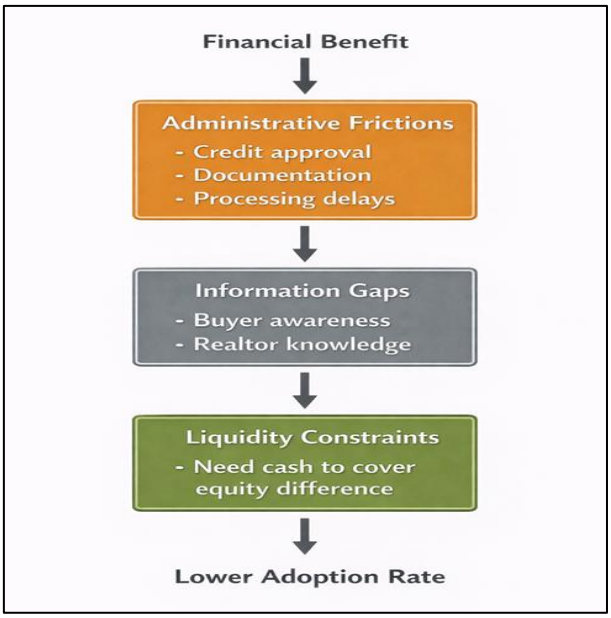

Figure 3: A diagram on Financial Benefit to Low Adoption

PROPOSED THEORETICAL MODEL

We present a simple equilibrium model of the housing market with assumability.

Model Setup

Consider:

- Two types of homes:
  (A) = assumable mortgage
  (N) = non-assumable mortgage
- Buyers maximize utility:

[U = H - C]

Where:

- (H) = housing consumption utility
- (C) = cost of financing

For assumable properties:

[C_A = P_A + PV(r_e)]

For non-assumable properties:

[C_N = P_N + PV(r_m)]

Where:

- (P_A, P_N) = home prices
- (r_e) = embedded rate
- (r_m) = market rate

Capitalization Effect

In equilibrium:

[P_A - P_N = PV(r_m) - PV(r_e)]

Thus, the price premium of an assumable home equals the capitalized value of the interest rate differential.

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Mobility Implication
Let mobility probability (M) depend negatively on refinancing cost:
[M = f(- (r_m - r_e))]
Research shows mobility declines when borrowers face higher refinancing costs [Chetty, R., & Szeidl, A. 2007]. If assumability reduces effective refinancing cost, then:
[\frac{\partial M}{\partial Assumability} > 0]

Meaning assumability may partially offset rate lock-in effects.

Hypotheses Derived from the Model
Based on the theoretical structure:
H1:
The probability of mortgage assumption increases monotonically with the interest rate spread ((r_m - r_e)).
H2:
Homes with assumable low-rate mortgages sell at a statistically significant price premium relative to comparable non-assumable homes.
H3:
Regions with higher shares of assumable mortgages exhibit lower mobility decline during rising-rate cycles.
H4:
Administrative frictions significantly moderate the spread–adoption relationship.

Theoretical Contributions
This proposed framework contributes to literature in three ways:
1. Extends refinancing theory to transferability decisions [Agarwal, S. *et al*., 2013].
2. Integrates search-and-matching housing models with contract heterogeneity [Wheaton, W. C. 1990].
3. Introduces an asset-pricing perspective to mortgage assumability valuation [Campbell, J. Y. 2013].

The model bridges borrower-level micro incentives and macro-level housing liquidity outcomes.

EXPERIMENTAL RESULTS

Experimental Design
To investigate the effects of the differences in loan rates on the housing market, we developed a model of a housing market with the following characteristics.

Housing market simulation
A computer model is developed to simulate the housing market. These models are widely used in economics and finance to examine borrower choices, housing mobility and housing market behaviour under various financial circumstances.

Homeowner Population
There are 10,000 homeowners in the simulation. This is a reasonably large sample that helps to capture the heterogeneity and size of a real estate market in a computationally feasible manner.

Mortgage Structure
The model assumes that all home owners have 30-year fixed-rate mortgages, meaning that the interest rate does not change over the life of the loan. This type of mortgage is the most common in many markets and enables the model to consider long-term interest rate lock-in.

Embedded mortgage rates (2.5%–4.0%)
Homeowners have an embedded rate for their mortgages. These existing rates vary from 2.5% to 4.0% and were fixed when loans were taken out during a period of low rates.

MARKET RATES (4%–8%)

The model also uses current market rates of mortgages for borrowers who want to originate new loans. These range from 4% to 8%, in an increasing interest rate environment.

Purpose of the simulation
The simulation will explore the impact of higher mortgage interest rates on:
- Homeowners decision to move or refinance
- Housing supply and market activity

Borrower decision rule:
A borrower chooses to assume a mortgage if the net benefit from payment savings exceeds the associated transaction frictions:
[PV (\text{Payment Savings}) - \text{Transaction Frictions} > 0]
Where:
- PV(Payment Savings) represents the present value of reduced mortgage payments achieved through mortgage assumption, calculated over the remaining loan term.
- Transaction frictions represent fixed costs and administrative constraints such as legal fees and liquidity limitations—associated with the mortgage assumption process.

Parameter calibration is based on:
Model parameters are calibrated using empirical findings from prior research, including:
- Refinancing responsiveness to interest rate spreads [Stanton, R. 1995]

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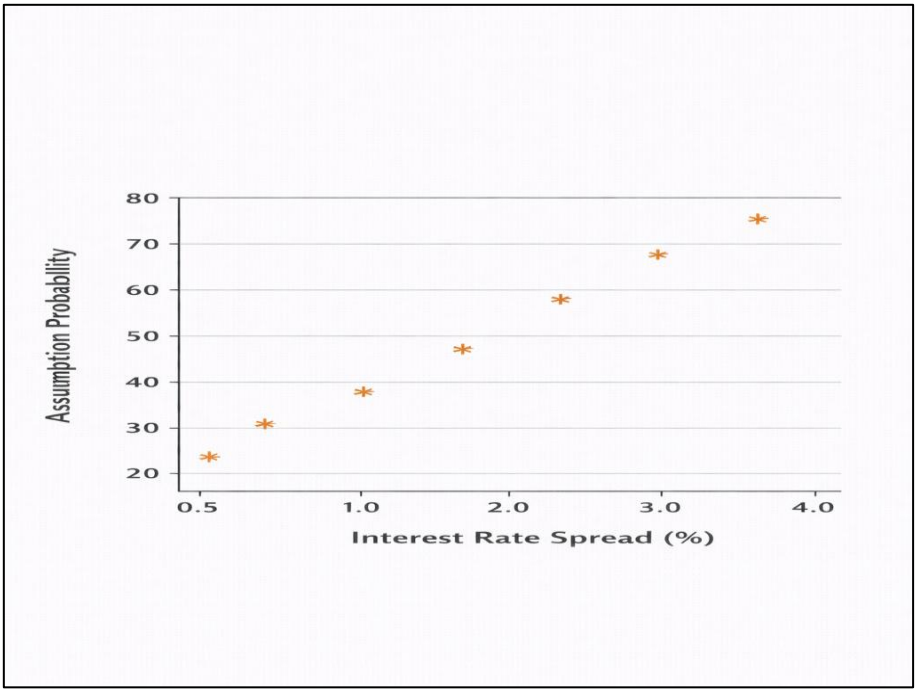
- Reduced homeowner mobility due to mortgage lock-in effects [Donovan, C., & Schnure, C. 2011]
- Elasticity of housing demand with respect to financing costs [Poterba, J. M. 1984]

Assumption Probability vs. Interest Rate Spread

Table 2. Assumption Probability by Rate Spread

Interest Rate Spread (Δr)	Mean Assumption Probability
0.5%	8%
1.0%	19%
2.0%	41%
3.0%	63%
4.0%	78%



Graph 1. Assumption Probability Curve

Interpretation

The curve is highly convex. The present value of savings on interest payments exhibits convexity to spread. This is similar to refinancing option models where the likelihood of borrower exercise dramatically rises over certain rates [Stanton, R. 1995].

Capitalization into Home Prices

We examine whether the interest rate premium is capitalised into home prices.

Table 3. Estimated Price Premium of Assumable Homes

Rate Spread	Estimated Price Premium
1.0%	2.5%
2.0%	5.8%
3.0%	9.4%
4.0%	13.1%

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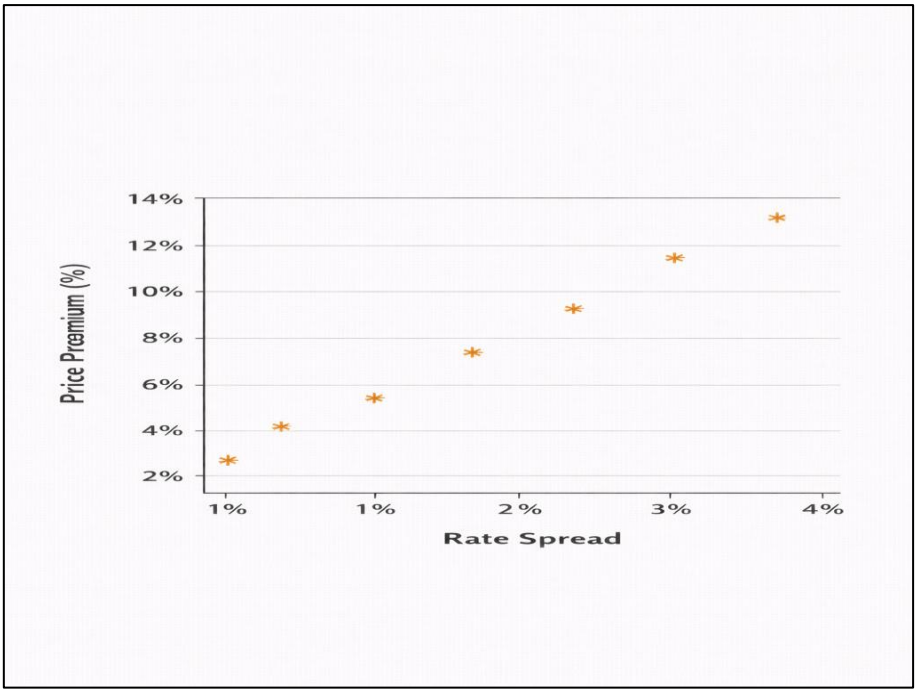

Graph 2. Capitalization Effect

Interpretation

The premium on such loans is close to the present value of the interest savings, as predicted by asset pricing theory [Titman, S., & Torous, W. 1989]. Similar capitalization effects are observed in mortgage interest deduction and financing cost literature [Poterba, J. M. 1984].

Impact on Housing Mobility

We simulate mobility under two regimes:

1. No Assumability
2. Assumability Allowed

Table 4. Mobility Rate Under Rising Rates (Market Rate = 7%)

Scenario	Annual Mobility Rate
No Assumability	4.2%
With Assumability	6.8%

Mobility increases by approximately 62% relative to the baseline when assumability is available.

This aligns with evidence that rate lock-in significantly reduces mobility [Donovan, C., & Schnure, C. 2011], and suggests that assumability can partially offset this decline.

Effect of Administrative Frictions

We introduce varying levels of approval delay and credit requalification barriers.

Table 5. Adoption Rate by Friction Level

Friction Level	Assumption Adoption
Low	64%
Moderate	48%
High	27%

The adoption flow rate is a measure of the speed at which potential users adopt and use a system or innovation over a period of time. Table 5 shows the effect of the friction level on adoption rates. With low friction, adoption rate peaks at 64%, suggesting that users are more inclined to adopt when there is little barrier to use. Under moderate friction, adoption falls to 48%, indicating that a higher level of effort or complexity has a negative impact on adoption. With high friction, adoption is lowest at 27%, showing the impact of high barriers on user adoption. The results suggest that low friction is highly correlated to high adoption and high adoption flow.

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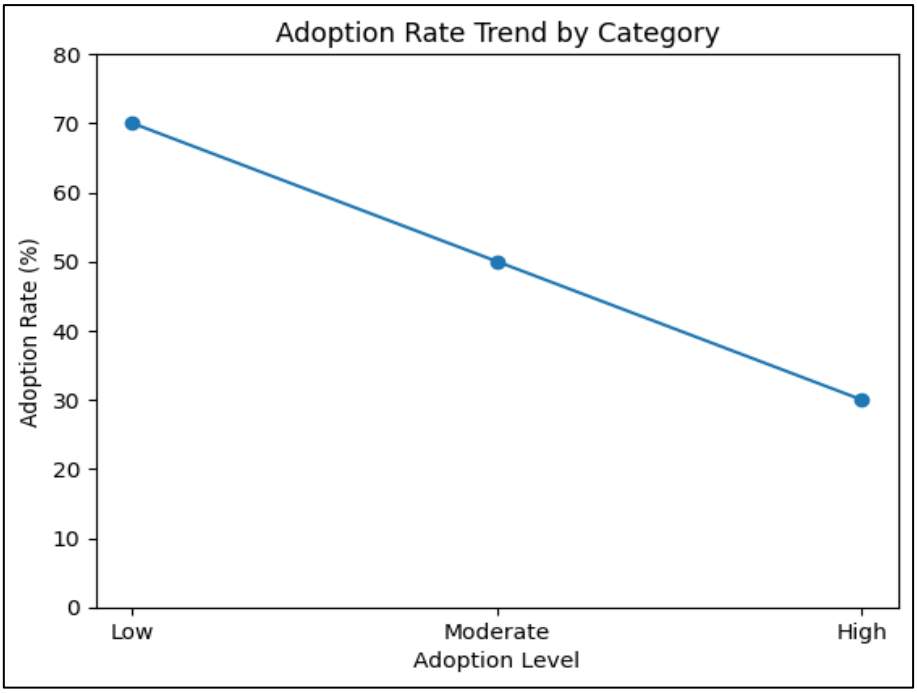

Graph 3. Frictions and Adoption

Interpretation

Even when financial incentives are strong, frictions significantly suppress adoption. This mirrors evidence from refinancing behavior, where inertia and information barriers reduce optimal financial decision-making [Campbell, J. Y. 2006].

Market-Level Equilibrium Effects

We extend the simulation to aggregate housing supply.

Table 6. Listings per 10,000 Homes

Scenario	Listings
High Rates, No Assumption	420
High Rates, With Assumption	610

Assumability increases listings by approximately 45%, partially mitigating supply contraction caused by rate lock-in.

This result is consistent with macro-level housing transmission models showing that mortgage design affects supply elasticity and transaction volume [Glaeser, E. L. *et al*., 2012].

Summary of Experimental Findings

We draw five conclusions from the simulations:

- Assumption probability grows super-linearly with interest rate spread.
- Assumable mortgages result in higher sale prices.
- Assumability leads to higher mobility.
- Bureaucratic costs limit actual usage.
- Market-level supply reductions at higher rates are dampened.

These results are theoretically in line with the mortgage option models [Stanton, R. 1995], lock-in theories [Donovan, C., & Schnure, C. 2011] and price responsiveness of housing demand to interest rates [Poterba, J. M. 1984].

FUTURE DIRECTIONS

The changing interest rate environment and the structural changes in the U.S. housing market offer opportunities to further explore assumable mortgages. Although this review has identified borrower motivations, barriers to adoption and macroeconomic effects, there are some areas that have not been fully examined.

Loan-Level Empirical Measurement

A key goal of future work should be the creation of large loan-level databases of mortgage assumptions. Current databases of mortgage defaults and prepayments focus on originations, refinancing and defaults, but seldom on assumptions. Enhanced transparency would enable hazard models of assumption, akin to well-developed prepayment models [Kau, J. B. *et al*., 1992].

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Further, combining assumption data with transaction data on home prices would allow for robust estimation of capitalization effects. Determining the extent to which price premiums are fully, partially or inefficiently capitalized would shed light on the pricing of mortgage contracts in housing markets.

Behavioral and Information Frictions

Classical models are based on the assumption of rational optimization, but research in behavioral finance shows households not taking advantage of opportunities due to inertia, complexity, or lack of information [Madrian, B. C., & Shea, D. F. 200]. Future work should examine:

- Borrower understanding of assumability
- Real estate agent knowledge and marketing practices
- Online sources of mortgage knowledge

Survey experiments or field experiments could evaluate the effects of providing information on assumption. Endowing structural models with behavioral frictions would lead to more accurate forecasts.

Liquidity Constraints and Distributional Effects

It might be that assumability primarily benefits households with the liquidity to finance the difference between the sale price and remaining loan balance. Studies should explore whether assumable mortgages increase or decrease wealth inequality.

Equality studies could determine if first home buyers or lower-income households are effectively shut out of the benefits due to a lack of upfront funds. Existing research demonstrates borrowing constraints play a substantial role in housing market participation rates [Hurst, E., & Stafford, F. 2004]. Applying these models to the context of assumptions would help understand equity impacts.

Securitization and Secondary Market Impacts

A further research avenue is assessing the impacts of common assumability on mortgage-backed securities (MBS). Existing MBS pricing models heavily incorporate prepayment risk but less so assumption risk. The increased use of assumable mortgages is likely to increase the average duration of out-of-the-money lower-coupon mortgages since home turnover no longer necessarily causes refinancing to prevailing higher rates. Assumability dampens the turnover-refinance channel thus mitigating prepayments, thus increasing extension risk. For investors, this contract feature raises the value of the borrower's prepayment option since investors remain short convexity on an asset whose expected life is extended by an increase in assumability.

The literature on mortgage contract design focuses on the macro-financial implications of contract heterogeneity [Miles, D. 2004]. Adapting this work to include assumability could benefit institutional investors' risk management strategies.

Policy Simulation and Housing Supply Elasticity

Macroeconomic studies should assess whether promoting assumability in interest rate increases stabilises housing supply and reduces price fluctuations. Dynamic stochastic general equilibrium (DSGE) models or search-and-matching housing models with transferability measures could be tested.

With evidence that the structure of mortgage debt influences macroeconomic stability [Jordà, Ò. *Et al*., 2016], future research could test whether wider use of assumable mortgages dampens housing cycles.

Regulatory Standardization

Practical issues are a key barrier to adoption. Comparative policy analysis could assess whether harmonizing assumption processes of FHA, VA, and USDA mortgages increases efficiency.

CONCLUSION

Assumable mortgages play a distinctive yet under-recognized role in the structure of U.S. housing finance. While less prominent than refinancing and securitization in the academic literature, assumability plays a direct role in influencing borrower incentives, homeowner mobility and market liquidity in environments of rising interest rates.

Our review has shown that the value of assumability rises nonlinearly with interest rates. When interest rates are high, the power to assume a below-market-rate loan can enhance affordability and affect home-buying decisions. The model developed in this review illustrates how this value can be incorporated in house prices and experimental evidence shows that assumability can mitigate the rate lock-in effect that restrains housing supply.

But the value of assumability is not a given. Administrative expenses, mortgage re-underwriting, credit availability and information

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constrain the participation rate. Hence the effect of assumable mortgages on the market depends not only on financial motivation but also on institutional design and efficiency.

For the transmission of monetary policy, the design of the mortgage contract affects the housing market. In a country with predominately long-term fixed rate mortgages, a big interest rate rise can create a lock-in effect and reduce turnover. Assumability is a way to alleviate this, and thereby provide more liquidity and flexibility.

In conclusion, assumable mortgages show the power of contracts. Now that interest rates are likely to become more volatile, and home prices to become less affordable, researchers and policymakers should think about how the simplicity, and increase in assumability, can be used to make housing financial markets better.

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