The Discussion on
The Impact of Assumption Financing
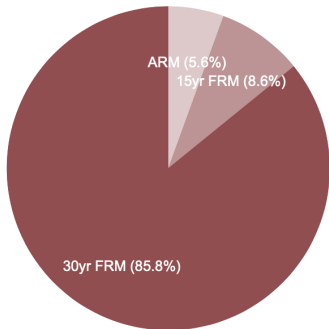# on Housing Sale Prices and Supply

Jiayi Zheng

Discussion by: Brittany Almquist Lewis

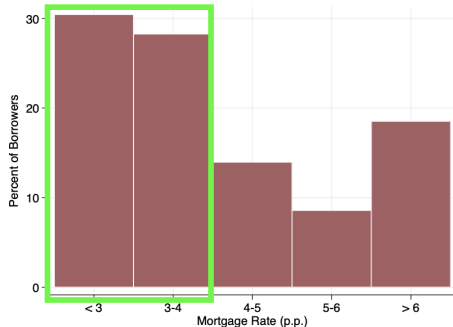## Motivation - Background on Mortgage Lock-In

- 86% of US homeowners have 30 yr fixed rate mortgages
- 58% have an interest rate below 4%

Figure 1: Fonseca Liu (2024)

(a) Share of 30-year Fixed-Rate Mortgages **(b)** Distribution of Mortgage Rates

Motivation - Background on Mortgage Lock-In (Cont'd)

- Borrowers who locked in a low interest rate in 2020 are less likely to move
- Decreases labor mobility of locked-in borrowers
- Decreases housing supply ⇒ high home prices
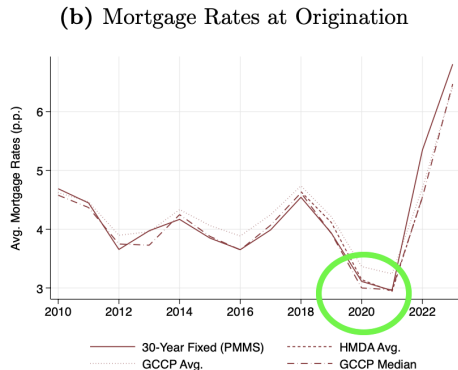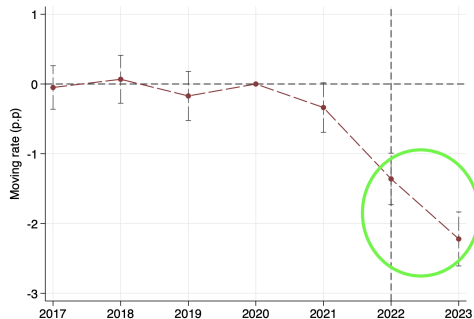
Figure 2: Origination Int. Rate (Fonseca Liu '24)

(b) Mortgage Rates at Origination

Figure 3: Moving Likelihood (Fonseca Liu '24)

This Paper

This paper provides first empirical analysis on value borrower places on mortgage assumption - and whether this can mitigate effects of mortgage lock-in

- ▸ Builds on 2 papers:
  - LaCour-Little, Lin, & Yu (2020) - use simulations to study assumption financing
    - To build on this: Collects data from two platforms, Roam and RedFin - detailed information about property characteristics and mortgage options. The dataset includes properties with assumable mortgages as well as those without.
    - Focuses on 14 U.S. regions.
  - Sirmans, Smith, & Sirmans (1983) - focuses on narrow market

Valuable because assumable mortgages can potentially mitigate the mortgages lock-in effect

Main Results

- ▸ Calculates value of assumable mortgages - in other words, how much interest the borrowers will save by buying the mortgage at the assumption value
- ▸ Estimates that 80% of this assumption value is incorporated into the home price
  - Effect is stronger in stronger sellers market (i.e. potential buyers are willing to split more more of the surplus with sellers)
  - For example areas with less credit constraints, higher working age population

Comment 1 - Stylized facts

- ► Can use Fonseca, Liu (2024) to establish mortgage lock-in effect, and position paper toward how assumption financing mitigates lock-in
- ► Stylized facts section about assumable mortgages at scale would be helpful for the reader and impactful to policy makers
  - What is the distribution of seller's equity (effective downpayment) that borrowers would need to make to assume these loans?
  - What proportion of borrowers need to take out second loans?
  - What is the distribution of second loans that are taken out?
  - Document borrower statistics (FICO, DTI, net worth, demographic group, education) of borrowers who assume loans

Comment 2 - model second mortgage

- Borrower must pay seller's equity portion
  - If the seller has significant equity in the home, this can be a large hurdle

- Account for second mortgages in model? What equity portion is too large for homeowners to pay?
  - What fraction of borrowers also take on a second mortgage?
  - Account for likelihood of second mortgage in assumption value and the amount of the buyer's surplus that the buyer is willing to split w/ the seller by paying a higher price

Comment 3 - How are assumptions viewed in secondary market?

Background:

- FHA and VA mortgages can be assumed
- For VA loans, assuming buyer does not need to be a veteran

Can the paper make a statement on what seems to be the biggest barriers to assumption financing and why is it not rolled out at scale?

- How to roll these out at scale?
- How is the assumption process handled in the secondary market?
  - One of the biggest barriers to assumable mortgages is the paper-work channel, lenders do not like to "port" mortgages, re-underwrite a new borrower for the same loan, and only certain mortgages can be assumed due to contracts with the underlying investor
  - Can the paper offer any insight into how these barriers can be mitigated?

Thank You!