

Mortgage Wraps: The Basics

The bottom-line definition: a mortgage wrap is the selling of a property without paying off the existing mortgage.

There is a clause in the loan documents that the seller signed stating that the mortgage company can declare that the full payment of the note is due if the property is sold without paying off the existing mortgage. This is called the due on sale clause.

We utilize a trust to avoid a due on sale clause issue. Pursuant to a federal statute, there is an exception to the due on sale clause if you convey the property to a trust with the borrower as a beneficiary (the Garn St. Germain Act)

This is a don't ask, don't tell transaction in regard to the mortgage company. Hundreds and hundreds occur each month in Texas. And, the Texas Legislature has even passed laws telling how to properly close a mortgage wrap. They are not illegal in any way.

Wraps will become more popular as market conditions change to make them more favorable. For example, higher interest rates and increased difficulty in selling properties will cause wraps to be more desirable and advantageous.

The following facts of mortgage wraps need to be understood:

1. The property is conveyed. The buyer is the legal owner. It is not a lease/purchase option or a rent to own.
2. A wrap must be closed with a law or title office to ensure all is documented correctly.
3. At time of closing, an attorney will draft all of wrap the loan documents to protect the parties.

Finally, the sellers will have the right to recover the property if the buyer defaults on the payments (as long as they are closed with the right law and title office). This is the same right as the big bank lenders and is an absolute right.

If you would like to learn more about how Ceshker Group Title can assist you in your real estate efforts, reach out to schedule a time to meet with us.

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