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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.

One would think that this means a mortgage wrap is a very risky thing. However, it is not. Lenders generally do not find out about wraps and do not care as long as they receive their monthly payment. This is not true for private lenders, smaller banks and some credit unions.

This is simply a don't ask, don't tell transaction. Hundreds and hundreds occur each month in Texas. And, the Texas Legislature has even passed laws telling how to properly handle 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 more difficulty in selling properties will cause wraps to increase.

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. If the lender does have an issue with the wrap, we can simply deed the property back to the seller/borrower and show this to the mortgage company.
3. A wrap needs to be closed with a law and title office to ensure all is documented correctly.
4. An attorney will draft all of the loan documents to protect the parties.

Finally, all sellers via a mortgage wrap 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). These are the same rights as the big bank lenders and is an absolute right.

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Contact Your Attorney For Assistance.

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