

## WRAP AND SUB TO BLUEPRINT THE STEPS OF A WRAP

### DEFINITIONS

The **seller financing** of a property that does not pay off the current mortgage lien on the property

Subject to = non-qualified assumption = exact wrap = taking over the mortgage = exact note wrapping around payoff amount of wrapped mortgage

Wrap = a bigger note wrapping around smaller note

Hybrid = a Sub To and a Wrap/seller carryback

The term “Wraps” is used to refer to all of the above. They are all wraps in one form or another.

### THE STEPS

1. Find a seller
  - a. Foreclosures
  - b. Probate
  - c. Convert many days on market listings
  - d. REO neighborhoods (neighborhoods with many foreclosures)
  - e. Any motivated seller
  - f. Equity partner with a seller
  - g. Every transaction is a possible Sub To acquisition
2. Evaluate the property/project and structure the exit strategy
  - a. Get with Nick Legamaro ([admin@usahomepartners.com](mailto:admin@usahomepartners.com))
  - b. He provides a proprietary deal evaluator software
  - c. He also provides exit strategy services
  - d. See information here - <https://www.youtube.com/watch?v=UAlxm6Dx8ps>
3. Contracting
  - a. All contracting information and detail is on Wrap University
  - b. Use your state promulgated forms if available
  - c. Avoid “out of state/one size fits all states” forms/contracts
  - d. Get a knowledgeable wrap lawyer to assist if none of the above are available
    - i. We have a near complete list for the US – reach out as needed
  - e. Disclose that this is a wrap transaction and the note will not paid off and the underlying mortgage has a DOS clause
    - i. Get this disclosure in writing and signed by both parties

4. How to list the purchase price
  - a. Sub to – “assumption of the amount of payoff of the existing mortgage at time of closing”
  - b. Wrap – same as a seller finance transaction
    - i. Down payment amount
    - ii. The loan amount
    - iii. The total
    - iv. Complete the seller finance addendum
      1. Amount
      2. Interest amount
      3. Amortization period
      4. Maturity date
      5. If an escrow is required
      6. If need consent to sell (a due on sale clause for the new note)
  - c. Hybrid – the assumption of the amount of payoff at time of closing plus an X dollar amount seller carry back
    - i. Sub to contracting; and
    - ii. Wrap contracting
5. Disclosures (Dodd/Frank, T-safe Act, RMLs, state requirements, Property Code §5.016)
6. Authorizations
  - a. Need authorization for you to access the lender
  - b. Need authorization for us to access the lender (in case the attorney request is needed)
7. Due on sale clause
  - a. Very low risk problem
  - b. Private lenders and credit unions are a bit more risky
  - c. Have plan B
    - i. Refinance
    - ii. Payoff note
    - iii. Sell property
  - d. We are using land trusts to keep the lenders from having the right to foreclose (Garn-St. Germain Act)
8. Get all mortgage information (payoff statement, reinstatement, copy of promissory note) via a conference call with seller, lender and investor
  - a. Get an authorization to speak with lender signed by seller
  - b. Also get online login information from seller
  - c. Change all contact information to your information

9. Get all contracting to an experienced law or title office to close your transaction
  - a. During this process, keep your buyer or seller constantly updated
  - b. Title will keep all updated – but you should too
    - i. A seller will be constantly solicited by other investors
10. Insurance
  - a. Must use an experienced insurance agent who knows how to get insurance in place correctly
  - b. Failure to do so is the most often reason for wrap to fail
  - c. Structure:
    - i. The buyer is the insured party
    - ii. The seller is listed as an additional interest
    - iii. The wrapped lender is included in the mortgagee clause
    - iv. The seller is also listed in the mortgagee clause
11. Get an escrow analysis to see if any adjustments need to be made
12. Handle property tax prorations if needed
  - a. Only needed if there is not an escrow account for the wrapped mortgage
  - b. If buyer is paying all amounts to reinstate and closing costs, this is not needed
13. Loan servicing company
  - a. This is a company that will receive payments and then send them to the wrapped lender and the investor (if needed)
  - b. These will protect the buyer and seller regarding knowing if payments are made
  - c. They also keep an escrow account if needed
  - d. They will advise if there is a late payment
  - e. They can also send out demand letters if needed
14. Closing documents needed for a closing
  - a. A full set of loan documents are needed for all Sub Tos and Wraps
    - i. Promissory note
    - ii. Deed of trust
    - iii. Warranty Deed with Vendors Lien
    - iv. All required disclosures
  - b. These documents will help the seller's debt to income ratio issues – allows them to get a new mortgage

15. Handling the escrow refund check when the wrap mortgage is paid off
  - a. Our power of attorney (POA) allows you to sign for the seller and deposit the check
  - b. Use ATM to avoid human decisions– i.e. do not walk in bank with POA and ask for permission (you have this permission via our POA)
  - c. If this fails, go to the bank with the POA and ask permission
  - d. If fails, try a check cashing service/company
  - e. If this fails, get the seller involved
  - f. The funds go to the end buyer if this was a Sub To/Seller Finance Wrap transaction
16. Same process with any insurance proceed checks belonging to you as the investor
17. 1098 mortgage interest deduction
  - a. In a sub to/wrap, this goes to you with seller name and belongs to end buyer
  - b. A third-party loan servicing company can assist with drafting one for the end buyer
18. Escrow changes in a sub to or wrap deal
  - a. There will be changes to the amount of the monthly escrow payment due to changes in amount of taxes and the insurance premiums
  - b. If a Sub To acquisition, you will need to pay these
  - c. If you sold seller finance wrap, you will need to update the end buyer with these changes
  - d. A third-party loan servicing company can assist with this task
19. Special concerns
  - a. What if the seller dies
    - i. Nothing changes
    - ii. The heirs will need to be advised that the payments will continue to be made
    - iii. Always have a plan B to end the wrap – just in case
  - b. What if the seller divorces
    - i. Nothing changes
  - c. What if the seller files bankruptcy
    - i. The seller will need to reaffirm the mortgage debt
    - ii. If they do not, you may have to hire a bankruptcy attorney to assist
    - iii. My documents require the seller to reaffirm the debt
  - d. What if you cannot find seller for a release after the wrapped mortgage is paid off
    - i. My closing documents have built in release if underlying loan is paid off
    - ii. If not using my documents, will need to get a release from the seller
    - iii. If you cannot find the seller, you may have to file a lawsuit to quiet title

20. How to handle a defaulting buyer

- a. Determine if the default is temporary or permanent
- b. If temporary, try loss mitigation efforts
  - i. Increase the monthly payments to catch up
  - ii. Give the borrower time to make lump sum payment to catch up
  - iii. Give the borrower time to sell and pay off the loan
    - 1. Get a deed in lieu of foreclosure to protect you if they fail
- c. If a permanent issue preventing them from catching up, recover the property and you will make more money via a re-sale of the property
  - i. Get a deed in lieu via a “cash for keys” offer if needed
  - ii. If they refuse, pursue a foreclosure effort
- d. Bottom line: You should be a very nice foreclosing lender
  - i. You want to avoid legal disputes and lawsuits