# Wrap-Around Mortgage Sale

The best way to sell a property FAST, where the property has some equity (usually 20% or more), is through a "Wrap-Around Mortgage" Sale. This is a variation of Owner Financing in which a new loan is created for the buyer, generally with a higher balance, interest rate and monthly payment than that of the existing underlying loan.

**Wrap-Around Mortgage Sale Example**

- Current Appraised Property Value: $220,000

- Existing loan(s) payoff: $205,000

- Sales price: $230,000

- New Loan: $15,000 down, $215,000 balance, Interest Rate: To be negotiated

In this example, the property is sold at a premium price by creating a loan that wraps around the existing underlying loan. Because the property is sold with financing, it will generally sell FASTER and at a PREMIUM PRICE. The exact terms, including the interest rate and monthly payment are negotiated with the buyer.

In general, properties sold with owner financing will demand premium interest rates (2-6%) above what lending institutions offer (to those that can actually get loans). Most or all of the down payment will go towards fees and closing costs.

**TMC Property Solutions** can manage this entire process for you by contracting to buy your property from you, creating the "wrap-around mortgage" loan and all necessary paperwork, and then resell the property to a buyer that would like to buy a property with owner financing.

**Wrap-Around Mortgage Sale Advantages and Disadvantages**

The advantage to selling a property through a wrap-around mortgage sale is that it will typically sell much FASTER and even at a premium sales price because it comes with financing.

The disadvantage to selling a property through a wrap-around mortgage sale is that you either don't get any of your equity (this is the tradeoff for selling faster) or, if you do get some of the equity, it is in the form of monthly payments, and not in the form of cash at closing (because cash at closing is used to pay closing costs and fees). Additionally, the seller's name will remain on the underlying loan that is wrapped for the buyer until re-financed.

Obviously, for most people they would prefer to sell FAST and at a PREMIUM PRICE and get and or ALL OF THE MONEY up front. Unfortunately, no such options exist in today's market, so you have to choose between the tradeoffs of selling using the various options listed in on this website.

**Common Questions about a Wrap-Around Mortgage Sale**

**Question:** Should I make the payments until the property is sold?

**Answer:** We would prefer to wrap mortgage payments that are current. If you are behind, a wrap may still be possible, however, the more behind, the more a buyer would have to bring to closing to bring the loan current – and the less likely it will be that a buyer can be found to buy your property.

Also, as the loan goes into default, a foreclosure becomes possible. The further behind your payments are, the bigger impact to your credit.

Generally if you are not able to keep the loan going, WE CAN HELP by doing a short sale on your property. Often we can start a short sale and wrap-around mortgage program together (a COMBO PLAN) and if a buyer can't be found in time for the wrap-around mortgage program, we can fall back to the short sale to avoid a foreclosure. For more information Contact Us

**Question:** Are there other alternatives to doing a Wrap-Around Mortgage?

**Answer:** In general, if a property has little or no equity, the only way to sell the property is to do a short sale or sell on a WRAP mortgage. If the property has more than 30% equity, you can sell for cash or pretty much any of the other options listed on this website. If the property is in the middle (between 10-30% equity) then a wrap offers great benefits in terms of speed and ease.

**Question:** How long does my name need to remain on the underlying loan?

**Answer:** Until the buyer ultimately re-sells the home or refinances the loan. If you want to place a limit of time for the loan your wraping, you CAN put a balloon payment due on the loan, making the loan expire after 1-3, 4, or 5 years (or any amount of time you desire) at which point the buyer will be required to refinance.

**Question:** How does this program affect my credit?

**Answer:** It depends. If you are behind in making your payments and/or have a spotty payment history, at the time that a buyer buys the property, through a wrap-around mortgage, your payments will be brought current and the monthly payments will be made on time and this will generally improve your credit.

For many sellers, as payments continue to be made monthly, and in a timely fashion, their credit will continue to improve or remain unchanged. Obviously, if payments are late or missed, your credit will degrade.

In most cases, although the underlying loan(s) remains in your name these loans are treated by the credit bureaus as cash neutral accounts (a debt with an offsetting credit). Check with your, licensed attorney, CPA, mortgage banker or trusted advisor to see how your specific situation will be handled.

The best way to monitor your credit, by the way, is to have a third-party loan servicing company collect the payment from the buyer and make the payment to the underlying lender(s) while sending the buyer as well as you, the seller, a statement each month.  This protects both the buyer and the seller in this type of transaction.  We can arrange this automatically as part of the closing.

**Question:**  Will I make any money?

**Answer:**  In most cases, if the property has little equity, there is no money to be made by the home seller however each home is unique and is all based on the numbers.

In cases where the property has a significant amount of equity, the property owner may receive money monthly from the third-party loan servicing company – some or all of the difference between the payment on the underlying loan(s) and the new payment that has been created for the buyer.

**Question:**  Will I have to pay anything?

**Answer:**  Depending on the property, situation, and buyer's resources, the property owner may or may not be asked to pay some closing costs.

One of the great benefits of this program is that most of the closing costs, assignment fees, and commissions (if any) are paid by the buyer.  Property taxes due are normally the responsibility of the seller.

Also, the property is generally sold "as-is" and repairs are generally the responsibility of the buyer.

Our goal is to not have the home seller pay anything at closing but again, each case is unique.

**Question:**  How long does this process take?

**Answer:**  Normally 2-10 weeks, but it could be less than a week!  Most of this time is used showing the property to a list of buyers that have already been found that are looking for properties, like yours, offered for sale with owner financing.

As with any sale, you can negotiate the closing date with the buyer.

**Question:**  What are the odds of success?

**Answer:**  Great!  Of course many factors affect the odds of success – most notably, would anyone want this property with this payment and can they afford it?

It has always been true that offering a property with owner financing, as is done with a wrap - around mortgage sale, allows a property owner to sell a property FASTER and with a higher loan balance than any other method of selling a property.

**Question:** What if the buyer stops making the payments?

**Answer:** If payments are missed, you have the right to foreclose on the property and get it back. In most cases it would be preferable, however, to call the buyer (or let the third-party loan serving company do this) and try to resolve the situation, by telling the buyer to deed the property back using a deed-in-lieu, so that a foreclosure on them (and the destruction of their credit) is not necessary.

In all cases if there is trouble with the buyer, call **TMC Property Solutions** and we will be happy to help resolve the problem and/or get the property back so that we can quickly sell it again.

**Question:** What if the buyer trashes the property?

**Answer:** The advantage of SELLING a property through a wrap-around mortgage is that the buyers are actually buying the property and not renting. In most cases buyers have a pride in property ownership and care more for the property than renters.

Additionally, these buyers are bringing their hard earned money to closing when they buy. So unlike renters who are just putting down a small deposit, the buyers have much more skin in the game, in the form of their down payment. They may even make substantial improvements to the property after they buy it as is the case with many homeowners.

Finally, if you threaten to foreclose on a buyer, you can often negotiate the terms under which the buyer will return the property to you, in exchange for you treating them more fairly in a foreclosure proceeding. For example, you can offer to allow them to stay in the property for an extra so many days in exchange for them cleaning and make-readying the property for a new buyer and deeding the property back to you so that you don't have to foreclose.

Regardless of the condition of the property, it can always be offered to a new buyer "as-is".

**Question:** What if I have multiple loans or liens against my property?

**Answer:** No problem. All loans/liens against a property can be consolidated and assigned to the buyer going forward. If a third-party loan servicing company is used (**TMC Property Solutions** can arrange this), all of the underlying loans can be automatically combined into a single new loan and escrow account on behalf of the buyer.

**Question:** If I can't afford this property, should I declare bankruptcy?

**Answer:** Some people facing payments on a mortgage they cannot afford consider bankruptcy as an alternative. The truth is that bankruptcy does not prevent a property from being foreclosed on – it just delays the process briefly.

If selling the property through a wrap-around mortgage (or a short sale) would leave you financially solvent, it is probably a far better alternative to bankruptcy.

**Question:** What about the interest deduction and the 1098 Interest statement I get every year?

**Answer:** Your lender will continue to issue a 1098 interest statement with your name on it each year or a third party servicing company if you choose to use one.

However, because you are no longer the owner of the property, and the one paying the mortgage, you are no longer entitled to take the interest deduction.

The new buyer is entitled to take the interest deduction. Therefore, they will disregard your 1098 statement and have their CPA generate a new one for them. If a third-party loan servicing company services the loan (we recommend this and can arrange for this), then a 1098 with the proper name on it will be generated and sent to the buyer.

**Question:** Can I buy or rent another property after selling using a wrap-around mortgage?

**Answer:** There is no rule that says you can't have more than one mortgage, and, for example, most landlords have many mortgages.

If your goal is to rent a new home, having someone responsible for the mortgage payment on your last property will likely help your credit situation (versus the alternatives of a short sale or foreclosure) and improve your ability to rent a new property.

If your goal is to buy another property, you may have to explain to your new lender (when asked about the old loan still on your credit report) that you sold the property through a wrap-around mortgage. In some cases, the underwriter will ask the new buyer (or loan servicing company) to send a brief letter verifying that the property was sold through a wrap-around mortgage and a new party is responsible for the payments going forward. Note: in some cases, although someone is making the payments on the loan, and the amount of the payment covers the expense of the loan payment, having the loan will affect your debt to income ratios. This can push some buyers below the current lending thresholds. Each individual is treated differently and getting another loan on a new property is certainly not guaranteed. So you'll need to check with a mortgage banker to find out how your individual situation will be treated.

Another option for sellers using a wrap-around mortgage who would like to buy another property, is to ask us, **TMC Property Solutions**, to find a property for you that is available through our "Order Your Dream Home" service or one of the other forms of owner financing. Please take a look at our current available properties.

**Question:** What kind of buyer will buy the property?

**Answer:** Possibly a person with less than perfect credit, but with an income sufficient to make the monthly payments, and enough up-front cash necessary to pay most of the fees, and closing costs associated with the wrap-around mortgage. Possibly a self-employed person that can't get a conventional loan in the current lending environment. In some cases a buyer with excellent credit and income that simply can't get a loan because of current underwriting standards, or simply does not want to put down the very high down payment required in the current lending environment.

We keep you involved in the process. We present all applicants we recommend to you, go over all the pros and cons of their application and let you accept or deny the applicant so you are comfortable with the new buyers.

For more information or questions, feel free to Contact Us here or call our office for a free consultation at (817) 599-8058.

TMC Property Solutions

**"Together, We Can Create Your Solution"**