

24 Hour Closing

Seller Wrap-Around Sales Checklist

AKA Sub-2

Wraparound financing is perfectly legal and has been around for decades. Even the HUD-1 closing statement, that was created by the US Government in 1975 (Real Estate Settlement Procedures Act), has a line in it for subject-2.

200. AMOUNTS PAID BY OR IN BEHALF OF BUYER:	500. REDUCTIONS IN AMOUNT DUE TO SELLER:
201. Deposit or earnest money	501. Excess deposit (see instructions)
202. Principal amount of new loan(s)	502. Settlement charges to seller (line 1400)
203. Existing loan(s) taken subject to	503. Existing loan(s) taken subject to
204.	504. Payoff of first mortgage loan
205.	505. Payoff of second mortgage loan

All lenders know that sub-2 happens. They can't formally allow sub-2, as a precedent for their lending practices and investors who buy their loans, but 99% of lenders who receive monthly payments don't care who the payment is made by. Some lenders couldn't complain even if they wanted to. We have seen people call WellsFargo and ask for a loan to be called - due on sale - Wells Fargo and other lenders often relate that they have no foreclosure process in place that allows them to foreclose on a 'performing' asset. Or that they have no power to foreclose on a loan held by a hedge fund that isn't in default. There is risk to anything, as an investor. Yes: the lender could invoke the "due on sale clause" contained in every mortgage/DOT and force the loan to be paid off. But, it rarely happens.

Seller considerations - We tell Sellers to think of it this way: there are two documents when you do a closing. The deed that says who owns the house, and the mortgage that says that they owe the bank money on the property. In a sub-2 closing, the ownership (deed) transfers to the Buyer/Investor. But the loan stays in the Seller's name. This is why they sometimes call it a wrap-around. The Buyer and Seller enter into an agreement where the Buyer wraps around the old loan and agrees to pay it, on behalf of the seller.

The Seller should understand that the loan stays on their debt/asset ratio. If they want to buy other houses in the future, this could affect their credit worthiness. It is also important to find a good/reputable Investor, because missed payments will continue to damage the credit of that seller. Obviously, missed payments are **VERY** rare, as the investor doesn't want to lose the house. But, it could happen. Alternatively, timely payments by that investor will improve the credit score of the Seller. A common situation for a sub-2 is a Seller needing to sell a house near foreclosure. The Investor paying the missed payments and future monthly payments will greatly improve the Seller's credit score and help far more than hurt.

Buyer considerations - Investment loans are hard to get and their interest rates are not nearly as good as those from Owner-Occupied properties. Wrap-Around loans are a wonderful opportunity to build an investment portfolio with incredible interest rates.

The Deal Must Work For Everyone

The Seller is giving the Buyer something of great value, depending on the interest rate of the loan. A wrap-around on a 2% interest rate loan is far more valuable than a loan that is set at 6%. The Buyer should pay a premium, for the opportunity to do this. Or, maybe the Seller is avoiding foreclosure on a property that is hard to sell on the open market due to market conditions, the payoff amount, or condition of the property (needs repair, etc)

The deal must be mutually beneficial! In some terms, you will be business partners until the loan is someday paid off.

How to do Sub-2

- 1). Start with a sub-2 contract (there is one on our website) and ask for a mortgage statement to confirm loan terms. You want to confirm the interest rate, make certain there may be no forebearances or other loan terms that affect the loan. And you want to see if the payments are current, in arrears, or even possibly in foreclosure.
- 2). Negotiate price. It's common to tell the seller that they'll Net xxxxx dollars from the closing, after bringing mortgage current or paying for other negotiated items, such as closing costs. Send contract to 24 hour close: **closings@24hourclose.com**
Please include contact info for Seller
- 3). Let the attorneys take over and do a title search. Other liens or title problems may affect the purchase and you may need to renegotiate with the Seller, later. Various judgments might apply, or maybe the Seller has multiple undisclosed mortgages. Let 24 Hour Close give legitimacy to the closing process and use its various disclosures and closing forms. HUD settlement forms, deeds and other closing documents will be created, like any other real estate closing. Title insurance is optional for the Buyer. We don't require that a Buyer purchase it. Some view it as a waste of money on a property that you know already has a loan on it.
- 3). **Closing:** Schedule a closing like any other transaction. But at closing, homeowner insurance needs to be changed from a primary occupant policy to an investment/rental policy and original owner must be named as **additional insured**. Not having proper insurance is one of the few reasons that a lender may try to call a loan due, just like they would if the homeowner didn't have proper insurance in place.

Sub-2 Frequently Asked Questions

What Kind Of Offer of This?

This is a subject-to offer. Unlike a traditional cash/hard money offers, the existing loan would not be paid off at closing. Instead, the existing debt stays in place under the seller's name, and the buyer takes over all payments. The difference between the loan balance and the total offer price is paid to the seller at closing.

How Do You "Take Over Payments"?

A full closing will be performed at a licensed NC/SC Real Estate Closing firm. During the closing the seller will sign a limited POA that gives the buyers the ability to make payment on behalf of the seller for his/her existing mortgage. Often, Buyer/Seller will share the online account log-in for the lender so that payments will be made electronically, that both Buyer/Seller can view through that log-in

How Is The Seller Protected / What Happens If Buyer Default?

The last thing that a Sub-2 Buyer wants is to default and not make the payments. They would lose the property. To make Sellers feel more comfortable, the law firm will create a "wrap around" promissory note that states that Buyer will make payments for the seller, or seller can take the property back. The seller could foreclose to take the property back in the unlikely event that Buyer was not making the payments.

Will Seller Be Able To Buy Another Home? / How does this impact their DTI?

It is true that this will affect Seller's debt to asset ratio. Buying another house, tomorrow, will be difficult. But, after a period of time, most lenders would be able to use the Buyer's future payments as income to the Seller, to offset that asset and try to qualify them for another house (if wanted). The timely payments made by Investor will hopefully improve seller's credit score and afford them future opportunities for borrowing, if desired.

What About VA Loans? Can Seller Get Another Loan?

Because the loan is still in the seller's name, the VA entitlement that is currently used on the property being sold is still allocated to that property. If the seller still has enough of their VA entitlement left, they can use it to buy another property or.....Seller can choose to get traditional financing on their next house purchase.

Who Pays Closing Costs?

Anything can be negotiated, but Buyer will usually pay all title fees for both buyer and seller. Seller could be responsible for listing agent commission as well as any liens, back taxes (if any), payments to catch up on the mortgage, and any payments for mortgage, taxes, utilities, HOA, etc. (prorated if in the middle of a billing cycle) up to the day of closing. All of this is up to negotiation

Important Information:

- This is NOT the same as an assumption, loan stays in seller's name.
- Seller stays in second position on title until loan is paid in full.
- In the event of Due on Sale: Buyer is responsible for full payment.
- Buyer is responsible for all future repairs and maintenance on the property.

Disclaimer: None of this information is considered financial, tax or legal advice and is not a contract. Please see the contract for specific terms and conditions. This is meant to help understand the terms better and to answer questions that we frequently get asked to the best of our ability and within our legal capacity (not as a financial advisor, or attorney).

If you have any more questions, we are happy to discuss the offer with you and can also get you in contact with our title company. Or you can contact your own attorney or financial advisor.

