

# CREATIVE MORTGAGE TALK

A Periodic Newsletter on Creative Financing

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## QUALIFYING FOR LOW INTEREST LOANS

### PART II

In previous editions of this Newsletter, I discussed how interest rates are now near the low end of the range over the past 50 years. Unfortunately, the bad news is that Lenders have now gone back to strict underwriting standards and as a result many people cannot qualify for such loans. In fact, many people who could have gotten a loan last year can no longer qualify. Therefore, one option to consider is the assumption of an existing loan. In the July/Aug edition of this Newsletter, I discussed assumptions in detail. In that issue, I talked about the three types of assumptions and mentioned that to protect a Seller in a standard assumption there should also be a "Zero Balance" Wrap-Around-Deed of Trust, which allows the Sellers to foreclose on the subject property if the Buyers default. In that manner the Sellers can get back into title and cure the delinquency and then pursue legal action against the Buyers for their failure to pay the loan.

**Zero Balance Wrap-Around:** A Wrap-Around Deed of Trust (*which is sometimes referred to as an all inclusive Deed of Trust*) involves a new Note and Deed of Trust that is created in which the Buyers pay the Sellers and from those payments the Sellers satisfy the existing loan. The Zero Balance Wrap-Around has a balance equal to the existing loan that is being assumed. Sometimes, Zero Balance Wraps are written where the Buyers make the payments to the Sellers and the Sellers then pay the underlying loan in an effort to avoid the "due on sale" clause. While this will make it harder for the Lender to learn that a sale has occurred, it is still a violation of the "due on sale" clause and can result in a foreclosure if the transaction is discovered. The proper use of the Zero Balance Wrap-Around is to protect the Sellers in a standard assumption when it is not possible

to get the Lender to agree to a substitution. The Zero Balance Wrap-Around therefore provides that in the event the Buyers fail to live up to their obligations to satisfy the existing loan being assumed, the Sellers could then foreclose on the property and correct the default. For these reasons I strongly recommend the use of the Zero Balance Wrap-Around with standard assumptions.

Although this document is referred to as a Zero Balance Wrap-Around, the balance on the Wrap-Around should never be exactly the same as the underlying loan being assumed nor should the interest rate be the same. Due to the process for collecting payments through escrow, there is sometimes a day or two lag when receipt of the payment is acknowledged by the escrow company and the date the payment is made on the underlying loan. As a result, it is possible for the Wrap-Around loan to amortize to zero and still have a balance on the underlying loan. To resolve this issue I always recommend that the balance on the Wrap-Around be at least \$500 greater than the balance on the underlying loan and that the interest should be at least one-quarter percent greater. That way there is little chance of the Wrap-Around amortizing before the underlying loan. In creating such Zero Balance Wraps, it is important to have the Buyer pay the annual collection fees to the escrow collection agency so that they are not deducted from the Sellers proceeds.

### WORDS OF WISDOM

*"After many years of observation, I have come to the conclusion that the definition of a "successful government program" is one in which the government solution is not too much worse than the problem that the program was created to solve."*

Ken Gain

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**Financial Wrap-Around:** This type of Wrap-Around is used in place of an assumption and a 2<sup>nd</sup> Deed of Trust and can result in the Sellers receiving a higher yield on the portion of the sale that they are financing, than they would receive accepting a 2<sup>nd</sup> Deed of Trust. It is also a much safer alternative for Sellers, since the entire payment is made to them and then, they (*acting through an escrow company or bank*) make the payments on the underlying first. As a result they always know whether or not the payment on the underlying first has been made. And if the Buyers default they can foreclose on their Wrap-Around Deed of Trust and continue to make the payments on the underlying loan.

**Financial Wrap-Around Example:** Let's look at an example and see how it increases the Sellers' return:

Purchase Price	\$100,000
Down Payment	(10,000)
Wrap-Around Deed of Trust	\$ 90,000
Existing Loan	(60,000)
<b>Seller's Equity in Wrap</b>	<b>\$ 30,000</b>

Because the Buyers don't have to pay costs of a new loan in a Seller Financed transaction, and because the Sellers may be a little more liberal in examining credit, it is usually possible to have Buyers pay an interest rate on the Wrap-Around that is higher than the interest rate on the existing loan. The following is an example in which the Sellers charged the Buyers 9% interest on the Wrap Around, while paying 6% interest on their existing loan.

	<b>Annual Payments</b>	<b>Annual Interest</b>
Wrap-Around (9%)	\$9,063	\$6,100
Existing Loan (6%)	(6,076)	(3,600)
<b>NET TO SELLERS</b>	<b>\$2,987</b>	<b>\$4,500</b>

As the above calculations demonstrate, the Sellers in this transaction would receive 15% interest on their \$30,000 equity, ( $\$4,500/\$30,000=15\%$ ).

**Most assumptions will require the use of a Wrap-Around Deed of Trust.** Except in the case in which the Buyers totally cash out the Sellers Equity and in which the Buyers are substituted and the Sellers are removed from all liability on the Note, a Wrap-Around Deed of Trust should be used in all assumptions.

**Seller Financing:** Since a financial Wrap-Around is a form of Seller Financing, I will address this issue in greater detail in future issues.

### **CASH NOW SELLER FINANCING™**

With today's financing, many properties and many Buyers will **not** qualify for a bank loan. The way to sell non-financeable properties is to use Seller Financing. **Buyers love it!** Unfortunately, many Sellers will not consider this effective and time proven financing option because the Buyers' down payment is not enough to meet their needs.

The answer to this dilemma is simple. We will pay **CASH NOW** for Seller Financed Notes with a simultaneous closing so the Sellers walk away from the closing with the cash they need.

### **A FREE WEBINAR**

To learn more about this concept, visit our website at [www.Cash4You.net](http://www.Cash4You.net) and take our new Webinar titled **"MORE SALES WITH CASH NOW SELLER FINANCING™."**

THINK POSITIVE,  
MAINTAIN PERSPECTIVE,  
AND YOU WILL DO FINE IN 2010!

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