Published June 9, 2011, in The Denver Post

50 Million Americans Can't Qualify for a Mortgage, But Here's a Strategy

REAL ESTATE TODAY

By JIM SMITH, Realtor®

One of the factors slowing the recovery of the housing market is the reduced number of buyers who can qualify for loans. Not only is it harder to qualify for a loan today (as it should be), but many buyers who could have met those stricter guidelines in the past were suckered into toxic loans which destroyed their credit when they ended up defaulting.

But there is a strategy that can put such buyers into a home that another owner may be about to lose to foreclosure. It's through a perfectly legal but little known process called a "wrap."

Here's how it would work.

Let's say some circumstance — job loss, accident, whatever — has made it clear to a homeowner that he can't keep paying his mortgage and must sell. However, he owes more than the house will sell for and he can't bring money to the table. He's facing either a short sale — which the bank won't accept if he has other assets — or foreclosure, either of which would ruin his credit. His mortgage is not assumable and is "due on sale."

But the bank already owns 50,000 homes and is not interested in foreclosing on homes with mortgages that are current. The owner can sell his home "subject to" the existing mortgage which the new owner would keep paying, or, better, can sell his home through seller financing which "wraps" around the seller's loan. The money paid by the buyer allows the seller to keep paying the first mortgage until the new owner is able to refinance. That's when the seller's loan gets paid off.

Such a transaction would require the services of a lawyer, but this cost (roughly $1,000) is far less than the costs associated with getting a regular loan. On my website, www.JimSmithColumns.com, I have a link to an article by a lawyer who specializes in these transactions explaining the process in detail. She gives examples of transactions and explains the risks for both parties. (Note: this would not work with an FHA or VA loan.)

Many buyers who can't qualify for a mortgage think that rent-to-own or a lease/purchase option could get them into a house, but the article explains that the risks to both buyer and seller far exceed the risks associated with a well-crafted "wrap." Another strategy, known as "contract for deed" is also far more risky.

The problem is how to identify sellers and buyers who would be good candidates for a wrap, since neither is walking into real estate offices and presenting themselves. If you consider yourself a prospect for such a transaction, call me for a free consultation.

This Week's Featured New Listing:

Brick Ranch Is Near Meadowlark Park

Meadowlark is a 1950's subdivision located south of 6th Avenue between Carr and Garrison Streets. This spacious 3-bedroom home is located in the heart of the subdivision at 8535 W. 1st Place, just a block from Meadowlark Park. It has been well cared for by its present owner, with no deferred maintenance. It has hardwood floors on the entire main level, which includes three bedrooms, two bathrooms, the kitchen, dining room and living room. A spacious back yard includes a cute storage shed/play house. See pictures of it and the rest of this fine property at the website shown above, where you can also take a narrated video tour. An elementary school is just a block away, and the new St. Anthony Hospital at the Federal Center is within easy biking distance! Open Sat. 2-5 pm.

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