Date:   October 23, 2012

To:     All Texas Agents

From:  Ellen Wied, Underwriting Counsel

RE:     Wraparound Transactions

In recent months, I have received quite a few questions about insuring wraparound transactions.  If these transactions are to be insured, we have to make sure that certain disclosures are made to the purchaser and that the title policy to be issued contains the appropriate exceptions to coverage for all liens.  We have a sample wraparound disclosure attached hereto for your convenience.

The purpose of this e-mail is to remind everyone that an FHA loan may <u>not</u> be wrapped.  There can be serious administrative sanctions imposed on settlement agents if they participate in a wrap of an FHA loan.  HUD is the agency that regulates FHA loans and can place a title company on its Excluded Parties List System (EPLS) or Limited Denial Participation list (LDP list) for participating in a circumvention of credit qualifying requirements on assumptions (by any means, including wraps and contract for deeds).

When a HUD investigation concludes that an individual or company (including settlement agents, title and escrow companies) has acted inappropriately, the individual and/or company may be placed on the EPLS. Further business with or providing services in relation to a contract or transaction involving new FHA or VA loans will be suspended or barred.  Additionally, any affiliate or division of a company, which has been barred, is subject to the same fate. Fannie Mae also requires that lenders confirm that parties to the mortgage transaction are not on the lists prior to delivery of the loan to Fannie Mae.

The other list is a Limited Denial of Participation (LDP List), which is an action taken against an individual or company for failure to comply with the specific standards for a HUD program. A LDP listing excludes a party from further participation in a specific HUD program area and generally expires in one year.

If you have any questions, do not hesitate to contact me on my direct line:  (512) 222-0900

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