What is an Alienation Clause?

Included in most home mortgages is a section that is referred to as an alienation clause. Essentially, the alienation clause is an agreement that if the incumbent owner should ever choose to sell the property, the holder of the mortgage will be able to call for a full settlement of the outstanding amount due. Sometimes referred to as a due on sale clause, the purpose of the alienation clause is to ensure that the mortgage holder is not left with no payments and no collateral to claim in the case of a default on the mortgage.

In practice, the alienation clause is usually invoked when the ownership of property is transferred from the owner of record to another individual. Often, this is often accomplished by the mortgage company simply opening an account for the new owner, extending a mortgage under the new account, and using a portion of the funds to pay off the previous mortgage on the same property. While this may mean for a very short time, there are two existing mortgages under two different owners, this is usually not a problem. As long as the new owner has a credit standing that makes him or her qualified to receive the mortgage, the entire process can be handled in a matter of days.

An alienation clause is not an unusual item to find in any mortgage arrangement. In fact, it would probably be more difficult to find a mortgage that did not include some form of this important acceleration clause. Alienation clauses actually help to protect both the homeowner and the institution providing the funding. For the homeowner, there is a clear-cut requirement that is placed within the mortgage that makes the responsibility to pay off the outstanding debt. This means there can be no miscommunication about what must take place.

Even if the new owner pays cash for the property, the incumbent owner will still be responsible for paying off the mortgage. For the lender, acceleration clauses of this type help to protect the investment that the firm has made in the property, and in the homeowner proper. Ensuring that this investment will not fail in turn helps to keep the firm in business, and allows it to continue to serve other persons who require lending as a means of securing property.

Reading an alienation clause within a mortgage contract should not be cause for any alarm on the part of the consumer. As long as the clause is written to clearly indicate that the amount due at the time the homeowner chooses to sell the property is only the current outstanding amount, and not some other figure, compliance should be very simple.

Source: http://www.wisegeek.com/what-is-an-alienation-clause.htm
April, 2014