

**WORKOUT, FORECLOSURE, DEEDS IN LIEU,
RECEIVERSHIPS AND OTHER
JUDICIAL AND NON-JUDICIAL REMEDIES**

**58th ANNUAL WILLIAM W. GIBSON JR.
MORTGAGE LENDING INSTITUTE**

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Brian T. Morris
Winstead PC
500 Winstead Building
2728 N. Harwood
Dallas, Texas 75201
bmorris@winstead.com
214-745-5714

Thomas M. Whelan
McGuire Craddock & Strother PC
500 N. Akard St., Suite 2200
Dallas, Texas 75201
twhelan@mcsllaw.com
214-954-6815

Niles W. Holmes
Niles Holmes PC
2609 Thomas Avenue
Dallas, Texas 75204
nholmes@nilesHolmeslaw.com
214-855-9866

BRIAN THOMPSON MORRIS

Winstead PC

500 Winstead Building

2728 N. Harwood

Dallas, Texas 75201

(214) 745-5714

bmorris@winstead.com

Brian T. Morris is a shareholder in the Dallas office of Winstead PC where he has practiced since 1987. Brian is the past Practice Group Leader for the Firm's Dallas Commercial Litigation Practice Group. Brian's practice focuses primarily on real estate litigation and financial services litigation. Brian has tried numerous cases in state and federal court and tried numerous arbitrations. His experience includes the representation of lenders, servicers, owners, developers, title companies, sellers, purchasers, and landlords, and includes the defense of class actions, including consumer class actions, general contract and business disputes, the representation of lenders in connection with real and personal property foreclosures, workouts, the defense of usury claims and lender liability claims including claims for fraud, statutory fraud, breach of fiduciary duty, breach of duty of good faith and fair dealing, tortious interference and wrongful foreclosure.

Brian is a co-author (with Mike Baggett) of a three volume Texas Practice Guide: Real Estate Litigation, published by West in 2002 and updated annually. Brian also co-authored several sections of Mike Baggett's Texas Foreclosure Law & Practice. Brian was a contributing author for the Texas Foreclosure Manual, 3d Edition (2014) published by the State Bar of Texas. Brian is a frequent speaker on several topics involving financial services litigation, real estate litigation and loan workouts. Brian has been named a Texas Super Lawyer and is AV rated.

Brian obtained a BA from Vanderbilt University in 1984. Brian obtained a JD from the Cecil C. Humphrey's School of Law at the University of Memphis where he was a member of the Law Review.

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FORECLOSURES AND DEEDS IN LIEU

INTRODUCTION

This presentation focuses only on loans secured by of commercial real property and primarily (i) non-judicial foreclosures under powers of sale conferred by deeds of trust or other contract liens pursuant to Chapter 51 of the Texas Property Code and (ii) deeds in lieu for commercial properties. There are additional requirements applicable to the foreclosure of liens secured by the debtor's residence including, but not limited to, a non-waivable twenty (20) day notice in Texas Property Code §51.002(d). The practitioner should also consult the Texas Debt Collection Act (Texas Finance Code 392) and the Federal Fair Debt Collection Practices Act (15 U.S.C. 1692, et. seq.) in connection with the foreclosure of residential property because additional requirements may apply to the notices depending on who sends the notice.

DEEDS IN LIEU OF FORECLOSURE

A deed in lieu is essentially a voluntary conveyance by the mortgagor of the mortgaged property to the mortgagee or the mortgagee's designee in full or partial satisfaction of the secured indebtedness. The conveyance transfers title to the mortgagee without the necessity of any foreclosure proceeding.

The conveyance requires a voluntary transfer by the mortgagor and a voluntary and freely given acceptance by the mortgagee. The mortgagor cannot simply execute a deed and force the mortgagee to accept it. See, Martin v. Uvalde Sav. & Loan Ass'n, 773 S.W.2d 808, 812-13, (Tex. App. – San Antonio, 1989, no writ).

Texas law does not establish the requirements for a deed in lieu, nor is a deed in lieu "a specific type of deed," but is a "deed given in the satisfaction of debt [which] may

serve as a convenient, efficient transfer of title upon default of a debt." Morrison v. Christie, 266 S.W.3d 89, 92-93 (Tex. App. – Fort Worth 2008, no pet.), citing, Flag-Redfern Oil Co. v. Humble Exploration, Inc., 744 S.W.2d 6, 8 (Tex. 1987).

A significant concern with a deed in lieu is the transferee taking the property subject to subordinate liens or other inferior interests in the property which would be extinguished by a foreclosure of the superior deed of trust lien but which are not extinguished by a conveyance of the property by deed or deed in lieu. (See p. 20, Impact of Foreclosure Rights of Others). A key provision in any deed of lieu agreement is one that expressly preserves the deed of trust lien and the mortgagee's ability to foreclose the deed of trust lien to extinguish subordinate liens and other inferior interests.

Texas Property Code §51.006 provides some protection for undisclosed liens or encumbrances to a party who accepts a deed in lieu in satisfaction of the debt. Tex. Prop. Code §51.006. Texas Property Code §51.006 provides as follows:

- (a) This section applies to a holder of a debt under a deed of trust who accepts from the debtor a deed conveying real property subject to the deed of trust in satisfaction of the debt.
- (b) The holder of a debt may void a deed conveying real property in satisfaction of the debt before the fourth anniversary of the date the deed is executed and foreclosed under the original deed of trust if:

- (1) The debtor fails to disclose to the holder of the debt a lien or other encumbrance on the property before executing the deed conveying the property to the holder of the debt in satisfaction of the debt; and
 - (2) The holder of the debt has no personal knowledge of the undisclosed lien or encumbrance on the property.
- (c) A third party may conclusively rely upon the affidavit of the holder of a debt stating that the holder has voided the deed as provided in this section.
 - (d) If the holder elects to void a deed in lieu of foreclosure as provided in this section, the priority of its deed of trust shall not be affected or impaired by the execution of the deed in lieu of foreclosure.
 - (e) If a holder accepts a deed in lieu of foreclosure, the holder may foreclose its deed of trust as provided in said deed of trust without electing to void the deed. The priority of such deed shall not be affected or impaired by the deed in lieu of foreclosure. Tex. Prop. Code §51.006.

Section 51.006 only applies if the debtor fails to disclose the encumbrance and the holder of the debt has no personal

knowledge of the encumbrance. Tex. Prop. Code §51.006(b).

JUDICIAL FORECLOSURE

A mortgagee has the option of instituting a suit to obtain a judgment establishing the debt and fixing the lien and for an order of sale pursuant to Rule 309 of the Texas Rules of Civil Procedure. Tex. R. Civ. P. 309; Bonilla v. Roberson, 918 S.W.2d 17, 21 (Tex. App. – Corpus Christi 1996, no writ). Suits for a foreclosure of real property pursuant to a judgment for foreclosure and order of sale are governed by Texas common law, the Texas Rules of Civil Procedure, and statute.

Given the delay and expense inherent with obtaining a judgment for foreclosure compared with the speed, efficiency and relatively small expense of non-judicially foreclosing the deed of trust lien pursuant to a power of sale, non-judicial foreclosure is the preferred option in Texas, and suits for judicial foreclosure are rare. There are, however, circumstances where a judicial foreclosure may be required or is the preferable alternative.

Although a power of sale is not necessary for a deed of trust to create a lien against the property, the deed of trust or other contract lien must include a power of sale in order for a non-judicial foreclosure of the lien to be possible. See, Tex. Prop. Code §51.002; Bonilla, 918 S.W.2d at 21. Texas Property Code §51.002 provides the procedures for a non-judicial foreclosure “of real property under a power of sale conferred by a deed of trust or other contract lien.” Tex. Prop. Code §51.002(a). If the deed of trust lien or other contract does not include a power of sale, non-judicial foreclosure is unavailable. See, Slaughter v. Qualls, 139 Tex. 340, 162 S.W.2d 671, 675 (1942) (a trustee has no power to sell the mortgaged property except as provided for in the deed of trust.). If the deed of trust or contract lien does not include a power of sale,

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