



What is a Second Mortgage?

Homeowners have some great alternatives to taking out standard loans for financial ventures like home improvements, new business costs, college tuition, or debt consolidation. They have some substantial collateral (the house) they can use to get great interest rates and loan terms. Loans like these, taken out against the home, offer the helpful benefit of tax-deductible interest. If you are a homeowner in need of cash, a second mortgage may be the perfect solution for you.

A second mortgage is defined as another loan taken out on your home as collateral. Instead of borrowing money to pay for a loan though, you are borrowing money from your home equity essentially, to pay for other expenses. The amount of money you receive will be based on the amount of equity you currently have in your home. You can receive a lump sum at the close of the loan or you can open an equity line of credit. There are several different repayment options available with second mortgages. There are also many benefits and some risks associated with them.

One of the benefits is that you can take out more money with a second mortgage than you can with a standard bank loan. This is because your home provides the lender with a tangible form of repayment if you cannot make the payments yourself. Also you have equity or value built up in your home; it is the difference between your home's value and the amount you still owe on your first mortgage. You can show the lender how much equity you have and they will let you borrow up to a certain percent of that earned value.

Another great thing you can do with a second mortgage is consolidate your debts. Because you can take out a substantial amount of money, you can pay off your high interest credit cards, college loans, and car payments, consolidating all your debt into your monthly mortgage payment, which will probably have a lower interest rate than your other credit accounts. Plus the interest on that consolidated debt will be tax-deductible when its part of a home loan. Credit card interest does not merit the same reward.

Beware though, before you take on this new burden of debt, that a second mortgage is a big risk and responsibility. Because it is the second mortgage, if you ever run into financial hardship and cannot make your mortgage payments, you will get hit doubly hard. Your first mortgage will be paid off first by the sale of your home. The remainder will go towards repaying the second mortgage. If the home sale does not produce enough money to cover both, you may have to come up with the money out of your own pocket to finish paying off the second loan. Make sure you have the means to take on this financial responsibility before you jump into another home mortgage.

Once you have determined you can handle the added risk, a second mortgage could really be helpful to you in financing a home improvement project, paying for your child's tuition, or other important goals. Talk with a trusted mortgage professional to find out if a second mortgage is the right fit for your situation.