

Published based on [Benefits Of A Second Mortgage](#)

# **Benefits Of A Second Mortgage**

Many people have heard the term second mortgage used in reference to a loan on a home.

What does the term "second mortgage" really mean? As far as real estate is concerned, a single piece of property can have multiple loans, or mortgages against it.

The loan that is first registered with the county or city is known as the first mortgage. The loan that is registered second is known as the second mortgage.

This has many benefits over a normal bank loan.

There can be as many mortgages on a property as there are lenders willing to provide funds.

If a loan happens to go into default, the loans are repaid in the order they were registered.

So, the first mortgage is paid first, the second mortgage is paid second, and so on. Because of this, subsequent mortgages are more of a risk for the lender.

In exchange for assuming the risk of lending a second mortgage, lenders often charge higher interest rates.

In many cases, the second mortgage has a shorter term than that of the first mortgage. Also present with many second mortgages are fixed amortization schedules and balloon payments.

Homeowners have many reasons for taking out a second mortgage. Some of the most common reasons are for home improvement, increasing cash, paying off other debts, or investing in a business.

In some cases, the second mortgage is used as a down payment for the first mortgage when the home is purchased.

When you are choosing a lender for a second mortgage, you will use many of the same considerations that came into play for your first mortgage.

The interest rate, repayment terms, and fees associated with the second mortgage are some of the primary factors that might cause you to choose one lender over another.

The repayment terms are another factor that you should use to determine a lender for a second mortgage.

Some second mortgage loans can be repaid in as much as 15 or 20 years. However, some loans must be repaid within a year.

Generally, the shorter the repayment period on the second mortgage, the higher the monthly payments will be. You should choose a loan with repayment schedule that falls in line with your ability to repay.

To obtain the loan, you will usually have to pay a fee that is a percentage of the loan. Your lender may refer to this percentage as "points".

One point is equivalent to one percent of the amount that you borrow. Therefore, if you borrow \$10,000 with five points as the fee, then you would pay \$500 (5%) in points.

The number of points charged will vary by lender. This is where shopping around will pay off for you.

In some states, there is a limit to the amount of points a lender can charge for a second mortgage.

Check with a banking commissioner or state consumer protection office to find out if there is such a limit in your

state.

Make certain that you get the amount of the fee in writing from the lender before taking the loan.

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