

Published based on [Second Mortgage Industry in Australia](#)

# **Second Mortgage Industry in Australia**

These are tough times if you need a loan but don't have sufficient or unencumbered property to offer as a collateral to the Bank or other financial institution. Cash is King and if you need more liquidity fast but your first mortgage lender will not advance any more or cannot act quickly, you might be in unforeseen trouble. A Second mortgage might be the best possible option at this difficult time.

Like many other countries of the world, the mortgage market in Australia has tightened considerably and extensions or increases to existing facilities that might have been offered 12 months ago are simply not available today. Many people in Australia, especially those in small business have been able to overcome short-term financial hazards or "cash crisis" and improve their position through a short-term second mortgage.

## **Second Mortgage**

You may or may not have heard about second mortgages. In simple terms, a second mortgage is made against the same property, which is offered as a collateral in the first mortgage but usually to a different lender. Hence, it is considered subordinate to the first mortgage and ranks behind the first mortgage in terms of security.

The interest rate of second mortgage is higher than the first mortgage. This is because, in case of default, the first mortgage is paid out first then the second mortgage is satisfied from the remaining equity.

## **Usability of Second Mortgage**

In a nutshell, a second mortgage is most beneficial when the borrower needs finance for a specific purpose for a short period of time and they can see how the second mortgage finance can be repaid in the short term. It is a good source of finance for opportunistic investments, or to satisfy an urgent unexpected expense. It is often used as a short-term cure for a business cash crunch or even to take advantage of a business opportunity that presents itself where the business operator can see that he or she can make money, IF they have some money NOW!

Other reasons for a short-term second mortgage might include the need of improvement of existing homes prior to sale, or bridging finance for the purchase of a new property prior to the sale of an existing property.

## **Overview of mortgage market in Australia**

The Australian mortgage market witnessed a tremendous boom during 2003 and 2004. However, earlier this year the market observed a sharp decline in its rate of growth with 12% growth being recorded in contrast to 22 % in 2004.

An analysis conducted by InfoChoice and The Sheet estimates that the Australian mortgage market presently stands at \$922 billion. It has been observed that this estimate is around three times greater than the report of Reserve of Australia. It is noteworthy that this study is also 12% bigger than the all-banks estimate in the mortgage industry of Australian Prudential Regulation Authority.

As a rule all big banks play a major role in the market, but usually only provide loans against first mortgage security and do not operate in the second mortgage space. Finance and mortgage brokers originate an increasing share of this Australian mortgage market and these brokers can usually source either first or second mortgages from a wide range of lenders.

## **Rise of Second Mortgage in Australia**

As traditional lenders become more reluctant to lend to existing customers due to tighter credit requirement and liquidity limitations continue in the banking system, more and more borrowers with a need for a short term remedy are turning to a second mortgage lenders to solve their temporary or short term liquidity problem to take advantage of opportunities or to solve their short terms problems.

To be eligible for a second mortgage, you must have surplus equity in your current property. This means that you must owe less with your current mortgage than the value of the property. The second mortgage lender will need to be comfortable that there is a good commercial reason for the loan and that there is an “exit strategy” for the loan. This means that the second mortgage lender can see how the loan is coming to be repaid through some event or process that will satisfy the advance and the charges for the loan.

Nandini

<http://www.articlesbase.com/mortgage-articles/second-mortgage-industry-in-australia-755994.html>

You can also find this article published on [Second Mortgage Industry in Australia](#), and on the tag pages [australian mortgage market](#), [australian prudential regulation authority](#), [business cash crunch](#), [countries of the world](#), [first mortgage](#), [mortgage market](#), [second mortgage](#), [second mortgage industry](#), [second mortgage industry in australia](#), [short-term financial hazards](#).