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What Is a 2nd Mortgage or 3rd Mortgage?

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You may have heard the terms - 1st (first) mortgage, 2nd (second) mortgage, or 3rd (third) mortgage. These terms simply refer to the order of the mortgages on title. "Title" simply refers to the document that references who owns the property and who has a financial interest in it. So - if you buy a house and you get a mortgage to do so - that mortgage will be in 1st position.

Now - another valid question is why doesn't everyone offer 2nd or 3rd mortgages (since they pay the investors more)? Well - you want to be the first mortgage holder (or at least 2nd) ("holder" means that you have lent the money and that you are the lender). The reason why you want to be the 1st (first) mortgage holder is simply because then you have priority if the property ever goes into foreclosure ("foreclosure" means you haven't made your payments and that the lender(s) are taking the house and trying to sell it to get their money out of it). The reason why you want to be in 1st (first) position is because, when a property goes into foreclosure, you get paid first when it sells (this is huge). The reason why this is huge is because when you try and sell a house (as a lender/mortgage holder) you will likely try and sell it as fast as possible so that you can get your money back asap. And since you are trying to sell this thing fast - you will likely sell it for less than it's worth and if you don't have enough money to pay back all the loans that have been borrowed against it then those in 2nd and 3rd position may end up not getting how much they are owed - ie. if your 1st mortgage that you owe is \$50,000 - your 2nd mortgage is \$25,000 and your 3rd mortgage is \$15,000 - then you owe a total of \$90,000. If your house is worth \$150,000 then there is lots of room to pay all these bills; however, since you tried to sell it asap and you could only sell it for \$100,000 - then there is only \$10,000 extra - now we can't forget the lawyer and Realtor (who are needed to sell the thing - so they get paid 1st, and then the 1st, 2nd, and 3rd mortgages are paid. Seeing as Realtor and lawyer fees can easily get to be more than \$10,000 - then the third mortgage (and possibly the 2nd mortgage) won't get all their money back.

So - now you can see the dangers of being a 2nd or 3rd mortgage lender/holder. You may then ask - why doesn't the 2nd or 3rd mortgage company just foreclose and then sell the property for what it's worth and then get their money out too? Well - if you are a 2nd or 3rd mortgage lender, you have to pay the mortgage payments on the mortgages which are ahead of you (otherwise they may go into foreclosure too - and if they sell it before you then you could have just paid a bunch of legal fees and not been paid back when the house sells). So - the moral of the story is simply this - sometimes it does pay to get a more expensive 2nd or 3rd mortgage than to re-do your 1st (or 2nd) mortgage. Also - there is a lot of risk associated with holding a 2nd or 3rd mortgage - so, the rates and fees that they charge are often justified.

A good way to view how many mortgages you have is to think "if I won the lottery - how many mortgages would I have to pay out to own this house completely (and not owe anyone anything on it)?" You may then ask why you'd ever want a 2nd (second) mortgage or a 3rd (third) mortgage?

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