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why do people get second mortgages?

What would cause a person to take out a second mortgage on their home?

Before the "Credit Crunch" 2nd mortgages were a common way of avoiding mortgage insurance when you didn't have 20% to put down on the purchase of a home. Those were the first casualties.

Today Home Equity Lines of Credit (HELOC's) do exist for preferred borrowers with equity in their homes. They work similarly to credit cards, in that you have a credit line, which you can use for anything you want. Often the first 10 years you pay interest only and then the last 20 years, you can't charge on them and have to start paying back the principal plus interest.

I think every homeowner with equity should have one established. If you don't draw on it it costs you nothing, except perhaps a small maintenance fee. It's like having free insurance in case you run into a financial problem, like a job loss or illness. As I tell my clients, when you NEED it you might not qualify for it.

Because home values have been declining, many HELOC's have been frozen or credit lines reduced and many lenders have stopped offering them.

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