Second mortgages
as a source of financing

Description

What do you need To know before taking out a second mortgage for lenders?

September 30, 2021

Second mortgages allow you to use the equity in your house as **a source of financing**. As a homeowner, you can take advantage of the money you have in your home if you have paid off some of your first mortgages or if you have increased its value.

First mortgages are used to buy houses. Second mortgages let you borrow cash for other purposes. You may be required to foreclose on your home if you default on either mortgage due to nonpayment.

In that case, however, you will keep the first mortgage. Your monthly mortgage payments will be doubled because of the second mortgage added to your first.

In comparison to cash advances or credit cards, you may find a second mortgage to be a more convenient way to get a large sum of money.

Types of second mortgages

Second mortgages can take several forms. Here are a few options.

Home equity loan

Second mortgages are also known as **home equity loans**; these are based on the value of a home, making them an excellent choice for property owners. The equity of a property equals the value of the loan amount.

© 2015-2022 VISIONNAIRES INC. - NO REPRODUCTION WITHOUT AUTHORIZATION

A property's equity grows as the mortgage loan is repaid or as its value increases. Borrowers with sufficient equity in their houses may be able to qualify for a home equity loan, which gives them either a lump sum or a line of credit to use as cash over time, along with the ability to repay the loan over time to **a second mortgage lenders**.

A bulk-sum second mortgage is designed for borrowers to receive the entire amount upfront, usually with fixed interest rates and payments.

HELOC

An equity second mortgage, or home equity line of credit (HELOC), is a second mortgage that allows the borrowers to draw funds up to a specified limit within a defined period of time. Interest rates on HELOCs are often variable based on actual usage.

What do you need to know before taking out a second mortgage for lenders?

1. HELOCs are not the same as home equity lines of credit. They might seem similar, but they differ slightly. The home equity loan gives you the flexibility to pay for a large purchase in one lump sum since the entire loan amount is upfront. Meanwhile, a HELOC is a kind of credit card that you can draw money from as you need it to make payments for whatever you need.
2. The money you receive from either type of the second mortgage can be used for anything you like. The money you borrow from a home equity loan or HELOC can be used for other purposes as well as home expenses. Students, medical patients, and people consolidating debt often obtain home equity loans. You can use these loans to consolidate higher-interest forms of debt, such as credit card balances since the interest rates on these loans are generally lower.
3. Both types of second mortgage interest can be deducted from your taxes under the right circumstances. The interest on a second mortgage can be deducted if you use the funds to make improvements to the house that secured the loan. Generally, if the loan is used to improve your home or make renovations, you can deduct the interest paid on it from your federal income tax.

To the best of our knowledge, all content is accurate as of the date posted, though offers contained herein may no longer be available. The opinions expressed are the author's alone and have not been provided, approved, or otherwise endorsed by WestmountMag.ca.

Feature image: Public domain

Sign-up to our newsletter and get email notification of our most recent articles

Sign up

Other articles on ***Real Estate***

Category

1. Article | Real Estate
2. Banking | Investment | Financial

© 2015-2022 VISIONNAIRES INC. - NO REPRODUCTION WITHOUT AUTHORIZATION

Tags

1. bulk-sum second mortgage
2. equity
3. financing
4. HELOC
5. house
6. money
7. Second mortgage

Date Created
October 2021

© 2015-2022 VISIONNAIRES INC. - NO REPRODUCTION WITHOUT AUTHORIZATION