



Weighing the Worth of 2nd Mortgages

“Refinance” is a word you’ll hear a lot in the mortgage industry. Over the past decade, more and more homeowners have been taking advantage of loans to refinance their current home mortgages to get cash for home improvements, debt consolidation, and other personal needs. One the most popular ways to do this is with a 2nd mortgage loan.

A 2nd mortgage is another loan taken out on your home as collateral. Instead of borrowing money to pay for a loan though, you are borrowing money from your home equity essentially, to pay for other expenses. The amount of money you receive will be based on the amount of equity you currently have in your home. You can receive a lump sum at the close of the loan or you can open an equity line of credit. There are several different repayment options available with 2nd mortgages.

These loans can be a great boon or a great blunder to you depending on your situation and the loan options you choose. Look at the following descriptions of the pros and cons of 2nd mortgages to figure out if it would be the right choice for you.

Advantages

Fast Cash for Projects or Tuition – A 2nd mortgage can provide some quick cash for needed profitable expenditures, like tuition for yourself or your children. **Home Improvement Funds** – If you need to make some changes around your home, a 2nd mortgage can provide the funding. Upgrading, repairing, or remodeling your home will also add more value to it and will increase your future equity. **Debt Consolidation** – Today’s economy is based on consumer debt. If you have racked up several sizeable debts with credit cards, car loans or other installment payments, you may be better off consolidating all the different payments with varying interest rates into one monthly payment. **Tax Deductions** – The great thing about home loans, even 2nd home loans is that the interest you pay on them is tax deductible, whereas interest on credit card debt is not.

Disadvantages

Greater Risk – A 2nd mortgage places greater strains on your financial resources. As if your first mortgage wasn’t taxing enough, a 2nd mortgage may put extra stress on your ability to make your payments. If you ever find yourself without the money to keep up, you will probably lose your home. Do not let any mortgage lender talk you into a loan you cannot afford! **Higher Interest Rates** – Because 2nd mortgages are riskier for you and for your lender than first mortgages, you should expect to pay higher interest rates with the new loan. The upside, if you are consolidating debts, is that the 2nd mortgage interest rate, while higher than a traditional loan, is generally much lower than interest rates on credit cards and other debts. **Extra Fees** – You should take into account the closing costs associated with the loan that could add up to thousands in extras for you to pay. Checking with several different lenders will give you an idea of how much typical closing costs will run. If you are planning to move within the next several years, paying such fees will likely negate any possible savings.

Getting a 2nd mortgage can often be a great way to get your debts under control, or to give your home a fresh look. Before you sign anything though, a thorough cost and benefit analysis should be conducted. Contact your financial advisor to help you assess the advantages of a 2nd mortgage for your situation.