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16 OF THE MOST COMMON QUESTIONS REGARDING PRIVATE 2ND MORTGAGES

Alberta - BC – Ontario – Manitoba – Saskatchewan

1. **What is the Difference between a Second Mortgage and a Home Equity Line?**
2. **Do I have to get my second mortgage from the same company as the first mortgage?**
3. **Can I get a Second Mortgage without Refinancing my 1st Mortgage?**
4. **Can I get a Second Mortgage if I have Bad Credit?**
5. **What is the contract interest rate?**
6. **Are there any upfront fees?**
7. **What are the fees associated with getting a private mortgage?**
8. **Why is the fee charge different on smaller and larger sized mortgages?**
9. **What is the Loan-to-Value (LTV) that you can finance against my property?**
10. **What are the pre-payment penalties?**
11. **How long does the process take?**
12. **Does a second mortgage have any tax benefits?**
13. **What happens at the end of the term and I cannot get non-private financing?**
14. **If I don’t have enough equity in my property, do I still have options?**
15. **What documentation will I need to provide?**
16. **If I own other real estate, can I use as it as additional security to get the mortgage loan?**

FAQ 1: What is the Difference between a Second Mortgage and a Home Equity Line?

Answer: There are a few between second mortgage and home equity lines of credit. Second mortgage offer fixed rates for a fixed term. Home equity lines of credit have rates that fluctuate with the prime rate for the financial institution. Home equity lines are revolving credit lines that only require an interest only payment each month. Home Equity lines of credits are also demand loans that can be called at anytime by the Financial institution. That is a rare occurrence, but is generally triggered when the loan holder financial situation has a negative change. Fixed rate second mortgages are either interest only payments, or have a payment due each month with a portion going to pay down both principle and interest of the loan. Interest only option is more common with private lenders since they are meant to be short term.

FAQ 2: Do I have to get my second mortgage from the same company as the first mortgage?

Answer: No. The first and second mortgage are totally independent.

FAQ 3: Can I get a Second Mortgage without Refinancing my 1st Mortgage?

Answer: Yes. We provide second mortgages behind existing 1st mortgages all the time. If you have a great rate on your first mortgage there is no reason to pay it out and refinance. Taking out a new second mortgage is a great idea to access your home equity for debt consolidation, debt restricting, business, home improvements, judgments, tax liens, etc. As long it makes sense, a second mortgage is a possibility.

FAQ 4: Can I get a Second Mortgage if I have Bad Credit?

Answer: For Sure. Credit is the least of our concerns. Provided there is adequate equity and your request makes sense, a private First or Second Mortgage is possible.

FAQ 5: What is the contract interest rate?

Answer: A typical private 2 nod mortgage on a residential property starts at a 10% plus applicable fees. A lender yield generally starts at between 12% - 14%. A general rule of thumb is for every 5% the LTV increases over 65%, the annual yield increases by 2%. The Annual Yield is a combination of the contract rate and lender fee for each year. Brokerage Fees are extra.

FAQ 6: Are there any upfront fees?

Answer: There are no upfront lender or broker fees on residential private mortgages. Commercial mortgages have upfront fees on a case by case basis.

FAQ 7: What are the fees associated with getting a private mortgage?

Answer: Combined Brokerage & Lender Fees generally start at 4% of the gross mortgage on mortgages greater than $150,000. Combined Brokerage & Lender Fees generally start at 10% of the gross mortgage on mortgages less than $100,000. Mortgages loans from $100,000 - $150,000 are generally somewhere between 4%-8% depending on the file.

Example: $100,000 Gross Mortgage.

$100,000 – Principal Gross Mortgage
- $10,000 – Total Brokerage/Lender Fee (10%)
- $3,000 – Lender Legal & Title Insurance
= $87,000 – Net to Customers

Example: $400,000 Mortgage

$400,000 – Principle Gross Mortgage
- $16,000 – Total Brokerage/Lender Fee (4%)
- $3000 – Lender Legal & Title Insurances
= $381,000 – Net to Customers

*** Borrower is responsible for Own Legal Fees & Closing Costs. ***

FAQ 8: Why is the fee charge different on smaller and larger sized mortgages?

Answer: The time put into smaller and larger sized mortgages are generally the same. It would not fair to charge 10% fee on a larger mortgage, and it also would not be cost effective to reduce the fee on a smaller sized mortgage. Every situation is different, and there are cases where an exception is warranted.

FAQ 9: What is the Loan-to-Value (LTV) that you can finance against my property?

Answer: On your typical residential property in an urban centre, private lenders will loan up to 80% of the property value. We do have access to lenders that will lend greater than 80%, but there needs to be a either a clear and quick exit strategy and/or a favorable 1st mortgage in place. Smaller rural communities are generally maxed out at 60% of the property value, with some lenders in the network that will consider 70%.
***Some exceptions apply to all files. ***

FAQ 10: What are the pre-payment penalties?

Answer: Pre-payment penalties vary depending on the type of deal and the objective, but the common industry standard on closed mortgages is 3-months interest pre-payment, or a fixed percentage of original registered principal amounts. Some provide open or partially open options. No pre-payment penalties will apply to a fully open mortgage.

FAQ 11: How long does the process take?

Answer: The process is relatively fast provided we are receiving requested documents in a timely fashion. On average, once an appraisal, application, and supporting documents are received, a commitment can be issues in 3 days or less, but in many cases within 24 hours

FAQ 12: Does a second mortgage have any tax benefits?
Answer: Possibly**.** If the funds will be used to invest or for business purposes, the interest can be a taxable benefit. Consult with your accountant.

FAQ 13: What happens at the end of the term and I cannot get non-private financing?
Answer: As a property owner, it is your responsibility to put yourself in the best position possible to transition from private financing, but we also understand that life happens. When your maturity date is coming up, you will essentially have the following options:

1. Renew with your existing lender. Good Repayment history is required for the Lender to consider.
2. Refinance with a new private lender.
3. Refinance with a non-private lender provided you qualify. Minimal costs are associated with this option.
4. List the property for sale and move.
5. List the property for sale to an investor and become a tenant with an agreement to buy-back in the future or be a permanent tenant.

If the above options are not exercised, the lender can/may initiate power of sale foreclosure proceedings.

FAQ 14: If I don't have enough equity in my property, do I still have options?
Answer: The options when property is lacking are few, but there are options. If the property is in an urban center or direct surrounding area and there is 10%-15% equity, the options would be as follows:

1. Provide some cash injection to meet a private lender's criteria for the loan to value requirements.
2. If other property is owned where there is adequate equity, a blanket mortgage can be considered.
3. Sell your property.
4. Enter in to IPR (Investor Purchase Refinance). This is when an investor purchases the property from the property owner, and the property owner signs a lease as a tenant.

FAQ 15: What documentation will I need to provide?
Answer: On standard urban residential properties where the combined mortgages on the property value is less than 65%, basically all this required is 2 pieces of Valid ID, a current mortgage statement, property tax assessment notice, an appraisal from an approved appraisal, and copy of home insurance policy. This is classified as equity based approval. When the LTV exceeds 65%, more documentation is needed such as appropriate income verification which varies depending on each file.

FAQ 16: If I own other real estate, can I use as it as additional security to get the mortgage loan?
Answer: This is always a consideration. At times, there may not be enough equity in the primary property, so if you own other real estate with adequate equity, this will be considered. This is referred to a "blanket mortgage" or "Inter Alia" mortgage. This type of mortgage is not offered by traditional or semi-traditional lenders on residential real estate. It is only offered by private lending institutions and individual lenders.