What is a Junior Mortgage?


A junior mortgage takes secondary priority to a primary mortgage.

A junior mortgage, also called a second mortgage, is a type of loan that is lower in lien priority than a prior loan or lien. This second mortgage is granted after a primary mortgage loan has been approved. Since a junior mortgage is recorded after the initial loan, it is considered inferior to the first loan. Like a first mortgage loan, a junior mortgage is secured using the value of the home as collateral.

Many borrowers seek to secure junior mortgages for the purpose of obtaining additional down payment or closing cost money. In this situation, the junior mortgage is granted at nearly the same time as the primary mortgage. Some lenders prefer to avoid granting this type of junior mortgage because the borrower typically has little or no equity in the home. However, other lenders are willing to grant junior mortgages in such cases, especially when the borrower has very good credit or meets other criteria.

Another reason a borrower might seek a junior mortgage is to gain access to his or her home equity. Often, liquidated equity is used for home improvements, taking a dream vacation, or assisting a family member with college tuition costs. However, this money can be used in any way the borrower sees fit.

In order to obtain a junior mortgage, the borrower must meet the requirements of the lender. The borrower must be able to prove his or her capability of repaying the junior mortgage in addition to the original loan. In considering the borrower's application, the lender will review the borrower's credit history and score, employment history, income, debts, and a variety of other factors. The fact that the borrower was able to obtain a first mortgage doesn't necessarily mean he or she will be able to secure a junior mortgage.

Junior mortgages typically carry higher interest rates and shorter loan terms than first mortgages. A higher rate means larger monthly payments and an increase in overall loan cost. However, junior mortgages are often less costly than unsecured loans.

Since a junior mortgage takes secondary priority to a primary mortgage, the lender stands a greater chance of losing money if the borrower defaults on the loan. Basically, the secondary lender isn't entitled to any portion of the proceeds from the sale of the home until the first lender is repaid in full. This higher level of risk causes many lenders to be cautious in granting junior mortgages.

Source: http://www.wisegeek.com/what-is-a-junior-mortgage.htm
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