



Avoid Red Flags in the Second Mortgage Process

If you are a homeowner and need some extra cash for that remodeling project, or to consolidate your debts, taking out a second mortgage may be the right solution for you. When you start the process, however you should beware of several pitfalls that could cost you lots of grief and money. Look for and avoid the following snares and red flags.

Undisclosed Second Mortgage Loan Details

Be sure that you know what you are getting into when you sign the paperwork for your loan. You should be proactive in finding out about all the rules and clauses. Some of the things you should ask about include: Prepayment Penalties – This type of clause punishes you with a sizeable fee if you try to pay off the loan too soon or refinance out of it into another within a certain amount of time. This is generally to protect the lender from losing money on the transaction, but there are still some lenders that do not require a prepayment penalty. Default Penalties – Some loans provide that if you are late on a payment, you will be charged an extra fee. While you hope you will never default on a payment, if you ever do it is better to not have any such stipulations attached. Automatically-included Insurance Policies – Sometimes loans will come with credit insurance as part of the deal. Many times you do not need this extra insurance if you already have other coverage. These included policies will only add to your costs, so you should find loans whose insurance programs are only optional. Balloon Payments – Most people cannot afford to end up with a huge balance due at the end of the loan. Yet this is the type of payment schedule that some second mortgages require. They allow you to make interest-only payments during the loan's term and then require you to pay the entire balance in one huge payment at the end. Unless you have a way to finance this type of loan, avoid balloon payment schedules.

Shady Lender Practices

While there are lenders out there who genuinely want to help you get the best loan for your needs, there are also plenty of lenders who will prey on your ignorance to satisfy your greed. Here are some clues that will tip you off that your lender is not dealing with you on the up and up: Your lender wants you to lie about or embellish your financial information. Not only is this ethically wrong, but it can also end you up in court with a mortgage fraud lawsuit. Your lender tries to get you to apply for a bigger loan than you need. Since a second mortgage is another loan using your home as collateral, you should only take out the smallest amount needed to finance your projects. Any loan size that jeopardizes your ability to make the payments could cost you your house! Your lender attempts to force you to sign the paperwork immediately to secure the promised deal. If it is truly a safe and normal loan, you should have as much time as you need to make a decision.

There are many more possible red flags that could occur in the second mortgage application process. If you pay attention to the ones mentioned above however, you will avoid many costly mistakes and you will be more sensitive to other potential problems. Make sure you read and understand all parts of the second mortgage loan before you sign anything. This will help you better maneuver around the dangers of shady lenders and unnecessary expenses.