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anyone for seconds?

if you don't fit in the box a second mortgage might help

It has become a lot harder to get a mortgage, unless you have a big deposit or equity in another property. If the bank says no, then a second mortgage can be a cost effective option.

A Second Mortgage is exactly that. For higher risk lending we sometimes use a bank for the first mortgage (has first priority over the property), and arrange a second mortgage with a finance company.

The First Mortgage will be up to 80% of the property value for owner-occupied and 70% for Investment Property. The Second Mortgage then fills the gap all the way up to 90%. You will still need a 10% deposit.

Doing a Second Mortgage is surprisingly cost effective.

All lenders price for risk. The riskier a deal, the more you will pay. If you are borrowing over 80% you will typically pay an extra 0.50% and 1.00%. This applies to the whole mortgage.

With two lenders involved there is no premium on the first mortgage. There is a large premium built into the second mortgage. Second mortgages cost up to 14%pa, but you need to look at the overall interest rate and repayments before comparing to other options.

2nd Mortgage Term	5
Purchase Price	$350,000
Deposit	$38,000
Amount to Borrow	**$312,000**
Bank Max LVR	80%

Mortgage Structure	Balance	Rates	Monthly Repayments
1st Mortgage	$280,000	5.50%	$1,283
2nd Mortgage	$32,000	14%	$745
TOTALS		6.37%	***$2,028***
Standard Mortgage - 25 Years			$2,010

We structure the first mortgage as interest-only so that the more expensive second mortgage is repaid first. This keeps your increase in borrowing costs to an absolute minimum.

The monthly repayments are not materially different from what you would pay normally. (In the real example above the difference is $18 per month.)

Second mortgage can be repaid as quickly as you like (including lump sums.) So after six months, if the property value has increased above your purchase price, we can consider increasing the first mortgage to repay the second mortgage.

Benefit of a Second Mortgage

- You can buy now versus save and buy later.
- Second mortgages are cost effective if set up properly.
- 2nd Mortgage Providers have a higher risk appetite than if you simply borrow from the bank.
- 2nd Mortgage Providers are less regimented than banks on borrowing criteria.
- You can borrow using a smaller deposit (but still need 10%.)
- The long-term relationship is with the First Mortgage provider (the "bank.")
- Credit management sits with the first mortgage (not the second mortgage provider.)
- First mortgage provider will have better product choices and better accessibility than if you borrowed entirely from a finance company.
- The second mortgage can be repaid rapidly (reducing your extra costs.)

Disclosure: JB is a former General Manager at ANZ National Bank and has a BCA in Finance from Victoria Uni and undertaken post-grad studies at University of London. He doesn't like to shave or wear suits which is why he left the bank. Squirrel is a NZ owned privately held company even though Squirrels cannot be found in New Zealand. We didn't think its distant cousin the Opossum would have been good for business. You can request our disclosure statement on 0800 212230 or read it on the web site. **All Rights Reserved.**

the mortgage experts