

# Private Mortgage Financing & Second Mortgages

---

## What is Private Mortgage Financing?

Private Mortgage Financing can occur when the borrower has to obtain financing outside of the traditional lending sources, i.e. Banks, credit unions, trust companies. The private lenders can be individuals who are searching for a better return on their money or, companies specifically, designed for these purposes. Private financing is not shady as the bad criticism it may receive. It represents a large portion of the mortgage financing industry here in Canada and provides another option for Canadian borrowers.

Private Mortgage Financing is mainly based on the property/real estate and how much equity is in the property. A private mortgage lender is not overly concerned with credit or income as much as the traditional lenders, but will review both to get an overall feel for the applicant. You do have to prove you can support the loan payments through some means through income received. Their main driving force behind the loan is the property. The more equity in the property, the more secure the loan is and as a result, the better interest rate for the client. Private lenders will also look to use other properties as collateral for security. For Example, if a borrower has another property with equity available, a charge may be listed against that property too as well as the property being financed. Sometimes down payment is not important when there is other real estate that can be used as security.



Private lenders will lend on properties outside of the box such as commercial properties such as:

- gas stations
- multi use properties
- churches
- farms and raw land

Traditional lenders will only lend on traditional properties ie. Single family home.

Construction financing for both residential and commercial for small and large projects are popular in private financing because the lenders do not impose the stringent guidelines that banks or other institutional lenders enforce for construction financing. If construction has already begun and issues arise in which the borrower needs more funds, then private financing would be required.

Private Financing provides a short term, quick fix solution for clients who having difficulty in obtaining financing through more traditional lenders. In some cases, it maybe long term if the property itself is outside of the box [typically what traditional lenders will finance] and can only be financed through private financing. Typically the private financing loan terms are 1 year from the agreement date and are renewed or renegotiated at renewal time. Interest rates and fees are higher than traditional lending; with a maximum loan to value of around 75% to 85% [can only borrower up 85% of the purchase price]. However, if other real estate is available for security,

then down payments can be less or not needed at all.

**Second mortgages** fall under Private Financing. Second mortgages are a popular lending source for clients who can only get a first mortgage say up to 70% but need 80% or even 90% in some cases. A second mortgage can be set up for the other 10% to 20%. An example would be a client who needs to finance a property purchase but does not qualify through a bank or other institutional lender for the full mortgage. Based on this, they may need to get a first mortgage up to 75% and a 10% second private mortgage, up to 85%.

Another example of a second mortgage scenario is a client who may need to refinance to draw out some equity but does not want to break their first mortgage. This would be due to a high penalty cost or good interest (or both) and will therefore set up a second mortgage instead. This can make sense, especially if the second mortgage is for a short period of time. Clients selling their home may require a second mortgage to renovate or fix up their home before listing.

High risk can be involved in lending to clients with weak credit, low income, or financing of unusual properties and because of this, the costs to borrower would be higher than average. Therefore, interest rates on the loan itself would be higher than traditional lenders would offer.

Contact **Robert Clancy** today to learn more **about Private Mortgage financing and second mortgages!**



***Robert Clancy***, AMP,

Mortgage Agent

VERICO Safebridge Mortgage Solutions

SAFEBRIDGE Financial Group

Tel: 416 899-1467

Fax: 1866 385-4049

Email: [robert@safebridgefinancial.com](mailto:robert@safebridgefinancial.com)

[www.bestratesmortgages.ca](http://www.bestratesmortgages.ca)

