**Defaulting on a Second Mortgage: What You Should Know**

When purchasing a home, people often take out more than one mortgage loan to accommodate other expenses. These loans can be used for covering the initial purchase of the property, carrying out a home remodel or renovation project, going on a vacation, or even paying for college fees. However, just like a primary mortgage loan, if you default on the payments of the second mortgage, you are likely to face a foreclosure. Whether the first or second lender initiates the process typically depends on the current value of your home.

**Understanding a Second Mortgage**

When you take out a second mortgage loan, you are required to sign two documents: a mortgage and a promissory note. The latter document serves as a promise in writing, ensuring that you will pay back the loan, while the former gives a security interest in the property to the lender. Some common examples of second mortgages are Home Equity Lines of Credit (HELOCs) and home equity loans.

The term second mortgage does not only mean that it is a loan taken out after a first or senior loan, but it also determines priority. Priority is a concept used for determining which obligation should be paid first after the foreclosure. For this, the date on which the mortgage was recorded in the county recorder’s office is of utmost importance. The mortgage with the earlier date will get higher priority, regardless of whether it is the first or second loan. Once the first mortgage is paid in full, the remaining balance from the foreclosure sale will go into settling the second mortgage debt.

**When the First Mortgage is Paid, but not the Second**

When you are unable to make payments on your first mortgage, it is highly likely that your lender will proceed to foreclosure, unless you negotiate a deal. However, when it comes to a second mortgage, the junior lender may or may not initiate a foreclosure.

*Homes with Equity*

As mentioned before, the current value of the property is a predominating factor that lenders evaluate before taking the foreclosure decision. This is because they need to ensure whether the foreclosure sale will be enough to cover for the first mortgage and leave enough money to cover the debt of the second. If there will be enough equity for the second lender to recover full or sufficient amount of the money it loaned you, they are likely to proceed with the foreclosure process.

*Homes with Negative Equity*

If your home is worth less than what you owe to mortgage lenders, your property will have negative equity. Such homes are generally referred to as upside-down or underwater property. In such a case, the second lender is unlikely to go for foreclosure. However, if you are unable to pay the first lender as well and they initiate a foreclosure, the second lender may file a lawsuit against you to recover the unpaid amount.

It can become quite difficult to manage more than one mortgage, especially when you begin to default on the first. However, all hope is not lost – you can still save your home by working with an experienced [foreclosure defense attorney](https://www.covertlegal.com/practice-areas/foreclosure-defense-short-sales/) who can help you determine the best way to avoid foreclosure. [Contact](https://www.covertlegal.com/contact-us/) Covert & Covert, LLP at (630) 717-2783 or online to schedule a free consultation today.