



Is a Bridge Loan a Good Idea?

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A bridge loan is exactly what it sounds like, a tool to span two separate loans. In real estate, a bridge loan allows investors to span the gap between their old and new loans.

For an investor who finds a desirable property but needs to sell an existing property to afford the new one - and the closings don't coincide - a bridge loan can be a valuable tool. But it can also be expensive, so make sure you have the facts before you jump in.

When acquiring a bridge loan, you use some of the equity in your existing property as collateral. A bridge loan may be structured to completely pay off the existing property's mortgage or, it may be set up to add new debt to the existing loan. Either way, keep in mind that lenders require that you have a binding contract of sale on the *existing* property to qualify for a bridge loan.

A bridge loan is expensive for two reasons:

1. Closing costs, points and six months prepaid principal, interest and taxes (on the existing home) are included in the loan. (If you sell your home within the first six months, you receive a credit for the prepaid funds.)

2. The mortgage on the new property must be financed by the same lender who extended the bridge loan. The rate offered will be higher than what would typically be available under a standard mortgage.

Other Options

A bridge loan may in fact be your best option, however given its higher costs and restrictions, other fund sources may be preferable. Check into your ability to borrow from your 401K, stocks, bonds, insurance policies or even a home equity line on your existing home before committing to this approach. And of course, don't forget the old standby... friends and family!



Got questions about real estate financing?

Contact Debbie@westchester-mortgage.com or 617-965-1236. She'll consider them for inclusion in a future column. Debbie Siegel is president of Westchester Mortgage in Newton, Massachusetts. She is licensed in several Northeastern states.