

Bridge Loans Guide

This guide explains what a bridge loan is, when it's typically used, and why it can be a strategic option for borrowers needing equity access or timing flexibility.

Understanding Bridge Loans

A Guide by The Housing Assistant



Introduction

Bridge loans are short-term financing tools designed to help homeowners purchase a new property before selling their current home. This guide explains what a bridge loan is, when it's typically used, and why it can be a strategic option for borrowers needing equity access or timing flexibility.

What is a Bridge Loan?

A bridge loan is a short-term loan that leverages the equity in a borrower's existing home to help finance the purchase of a new home. It is often used when the borrower has not yet sold their current property but wants to buy a new one. The loan is usually repaid once the original home sells.

When Are Bridge Loans Used?

- Purchasing a new home before selling the current home
- Making a non-contingent offer in a competitive market
- Managing timing gaps between a home sale and new purchase
- Avoiding short-term rental or temporary housing
- Using home equity for the down payment on a new home

Why Use a Bridge Loan?

Advantage	Benefit
Non-contingent offers	Strengthens buyer's offer in a competitive market
Equity access	Utilizes existing home equity for new purchase without waiting
Flexible timing	Allows for overlapping closings or delays
Short-term solution	Temporary loan repaid from the sale of current home

How Are Bridge Loans Structured?

- Secured by the existing home, not the new home
- Can be structured in two ways:
 - One large loan that pays off the existing mortgage and provides down payment funds
 - Two smaller loans: one to pay off the old loan, another for new home funds
- Term is short (usually 6 to 12 months)
- Interest rates are higher than standard mortgage rates

What Should Borrowers Consider?

- Must qualify for both mortgages temporarily
- Requires strong credit and financials
- May involve interest-only payments or balloon structures
- If the original home doesn't sell in time, it can create financial strain