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FISCALLY FIT
By TERRI CULLEN

Bridge Loans Help Fill Gap Between Selling and Buying

If you've never heard of a bridge loan, it's probably because the housing market has been so hot for so long that most people haven't needed them.

In the last five years many homes sold within days of being listed, meaning few homeowners had to worry about paying for their new homes before they'd sold the old ones. But a slowdown in a number of major housing markets in the U.S. suggests that more consumers may need a helping hand to bridge the gap between buying and selling a home.

Before you hammer me with e-mail demanding to know where this alleged housing bubble is, consider the government's own take on the housing market. Recent news stories trumpeted a record year for existing home sales in 2002, but regional stats show there are definite pockets of weakness in home sales across the country.

Our interactive graphic[2] tells the tale: Of the 20 regions we profiled, eight saw home prices fall, most notably in Boston, Denver and New York.

If you're one of the unfortunate home sellers caught between two closings, a bridge loan -- also known as a swing loan or gap financing -- can provide you with the cash infusion you need.

I'm no cheerleader here: Bridge loans can be fraught with risk and have a lot of drawbacks, including higher-than-average interest rates and fees, and the very risky proposition of taking on the equivalent of three mortgage payments

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BUBBLE BUILDING?

Is your local housing market in danger of becoming overheated? **This interactive graphic**[1] provides a snapshot of the health of the housing markets and local economies of 20 metro areas across the U.S.

Not close enough to home? **Check back here Friday**, when Weekend Journal will publish a list of home-price changes in 500 locales by Zip code.

TOOLS

For tools to help you with a variety of financial planning needs, from asset allocation to saving for college, visit the Money Toolbox page.

ABOUT TERRI CULLEN

Terri writes the "Fiscally Fit" column every Thursday for The Wall Street until your old home is sold.

Journal Online. Terri is an assistant managing editor and one of the original team of editors who helped launch the Online Journal. In 2002, she won the Medill School of Journalism Financial Writers and Editors Award for best financial columnist. Terri also is a contributor to the book, "The Wall Street Journal Online's Guide to Online Investing," published in 2000.

Send your comments about "Fiscally Fit" to Terri at fiscallyfit@wsj.com[5].

Risks and Rewards

There are two types of bridge loans. With the first, you borrow the money to pay off your existing mortgage and enough to make your desired down payment on your new home. You're usually not required to make monthly payments on your bridge loan. Instead, you make only the monthly mortgage payment on your new home, and when your old home sells you use the proceeds to pay back all the accrued interest and the outstanding balance on the bridge loan.

The second type of bridge loan can be more hairy: You keep your current mortgage, but borrow against the equity in your current home and use that money as the down payment on your new home. Say your new home costs $500,000. You've built up $175,000 in equity in your current home, which today is worth $300,000 and has an outstanding mortgage balance of $125,000. You want to make a down payment of $100,000 on your new home and you've earmarked $50,000 in savings to cover part of the cost. A bridge loan would let you borrow against that $175,000 in equity to help make up the difference.

While you're taking on the equivalent of three loans -- the mortgage on your old home, the mortgage on your new home and the bridge loan -- you typically won't be required to make three loan payments each month. Instead, you pay the outstanding balance and accrued interest when you sell your current home. That said, not everyone can afford to carry two monthly mortgage payments, even for just a few months. If doing so would stretch your resources, you likely won't even qualify for a bridge loan.

"Bridge loans are a sensible means of financing as long as the homeowner is able to afford the loan payments, and as long as the new home isn't used as collateral to acquire the loan," says Robert de Heer, author of Realty Bluebook, which covers real-estate financing. Only the current home should be used as collateral, he says.

Like most hybrid mortgages, terms and conditions vary from lender to lender. Some will loan you a percentage of the value of your existing home, minus the outstanding mortgage balance, while others will only let you borrow a percentage of the equity in your current home.

Interest rates on bridge loans run about two percentage points higher than the average 30-year fixed-rate mortgage, which currently stands at about 6%, according to HSH Associates, a mortgage-information provider in Butler, N.J. (If your home sells before the specified six-month period, you usually don't have to pay interest for the remaining period.) As with mortgages and home-equity loans, interest payments on bridge loans are tax-deductible.

Typically, you'll get your best deal by looking for a lender to handle both your bridge loan and your new mortgage. Lenders will sometimes offer a more-affordable rate on a short-term bridge loan if that means they can also handle the long-term mortgage on your new home.

Make sure you look over the fee schedule carefully. Because there's a higher level of risk involved with bridge loans, lenders often charge substantially higher fees -- it's not uncommon for lenders to charge one percentage point or more of the outstanding loan balance. And check for any prepayment penalties.

Optimal Conditions

Swing loans are meant to be short-term loans: Most are expected to be paid back within six months, or after your original home is sold -- whichever comes first. In many regions, conditions are optimal for getting a bridge loan: Homes are selling, though not as quickly as they have, and prices are more realistic.

When the housing market is sizzling, a homeowner can expect to sell a home within a month or two if it's reasonably priced, according to the National Association of Realtors. When demand for housing cools, however, it's not uncommon for a home to sit on the market for six months or more if the homeowner's sales price is unreasonably high. Make sure you'll be able to renegotiate to extend the loan period if your house fails to sell before the loan comes due.

Before even considering a bridge loan, check with your local realtor to see how long homes in your area and price range are sitting on the market. If your home currently is on the market and has attracted few bidders, consider lowering your asking price to boost the chances of finding a buyer. While it's nice to have the option of a bridge loan, it's always best to wrap up the sale of your existing home before you commit to purchasing a new one.

Next week: Are you one lawsuit away from a financial catastrophe? A rundown on which of your assets is up for grabs if you get sued, and what you can do to protect yourself and your family in the event of a lawsuit.

• **Got financial-planning questions?** Write to Terri at fiscallyfit@wsj.com[4]

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