MORTGAGE SQUAD

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EVERYTHING YOU NEED TO KNOW ABOUT BRIDGE FINANCING

WHEN IT COMES TO BUYING A HOME

If you haven't reached the closing date of your current home by the time you want to buy a new one, a bridge mortgage allows you to use the equity from your existing home to pay the down payment on your next home.

Imagine you've just found yourdream home, and then miraculously, you even manage to win the red hot bidding war to buy it. Trouble is, you're still waiting for the sale on your current home to close, so money is tight.

Where will you find the down payment so quickly?

Bridge financing can help ease the transition between selling your old home and buying a new one. If you haven't reached the closing date of your current home by the time you want to buy a new one, a bridge mortgage allows you to use the equity from your existing home to pay the down payment on your next home.

By definition, bridge financing helps to reconcile that short gap between the purchase of a new home and the sale of an old home.

Mortgages and bridge financing: How does it work?

These are short-term loans, typically as brief as 90 days up to 120 days (some can go as long as a year). The caveat is that if they are longer, banks will put a lien on the house, which will require a pricy real estate lawyer. However, because they're quick, you will know if you qualify within a few days, if not a week — something that isn't always possible with a traditional loan.

A bridge loan lasts only long enough to free up some equity in your old home — to which you then use to pay the bridge loan, plus interest when it's finally sold. "A bridge loan has to be repaid on the sale closing date," says Turk.

Do I qualify for bridge financing in Canada?

Most Canadian banks will want to see both the sale agreement for your old home and the purchase agreement for the new home before qualifying you for a bridge loan.

Since these short-term loans are often secured in a few days, many factors go into qualifying, such as how fast your home will sell, your credit rating, and the amount of equity remaining in your old home.

To be eligible for a mortgage bridge loan in Canada, you likely need a credit score that is either good to excellent (650 to 900). Banks will also consider your income-to-debt ratio, as they want to be sure you can financially carry two mortgages and a bridge loan for a short time. Typically, the maximum amount you can take out for a bridge loan is 80% of the combined value of your current home and the new home.

"Ideally, you want your bridge financing to span a few days between your purchase and your sale, so you have enough time to set up your new property and vacate your existing property," says Ron Turk, a home financing advisor at Scotiabank.

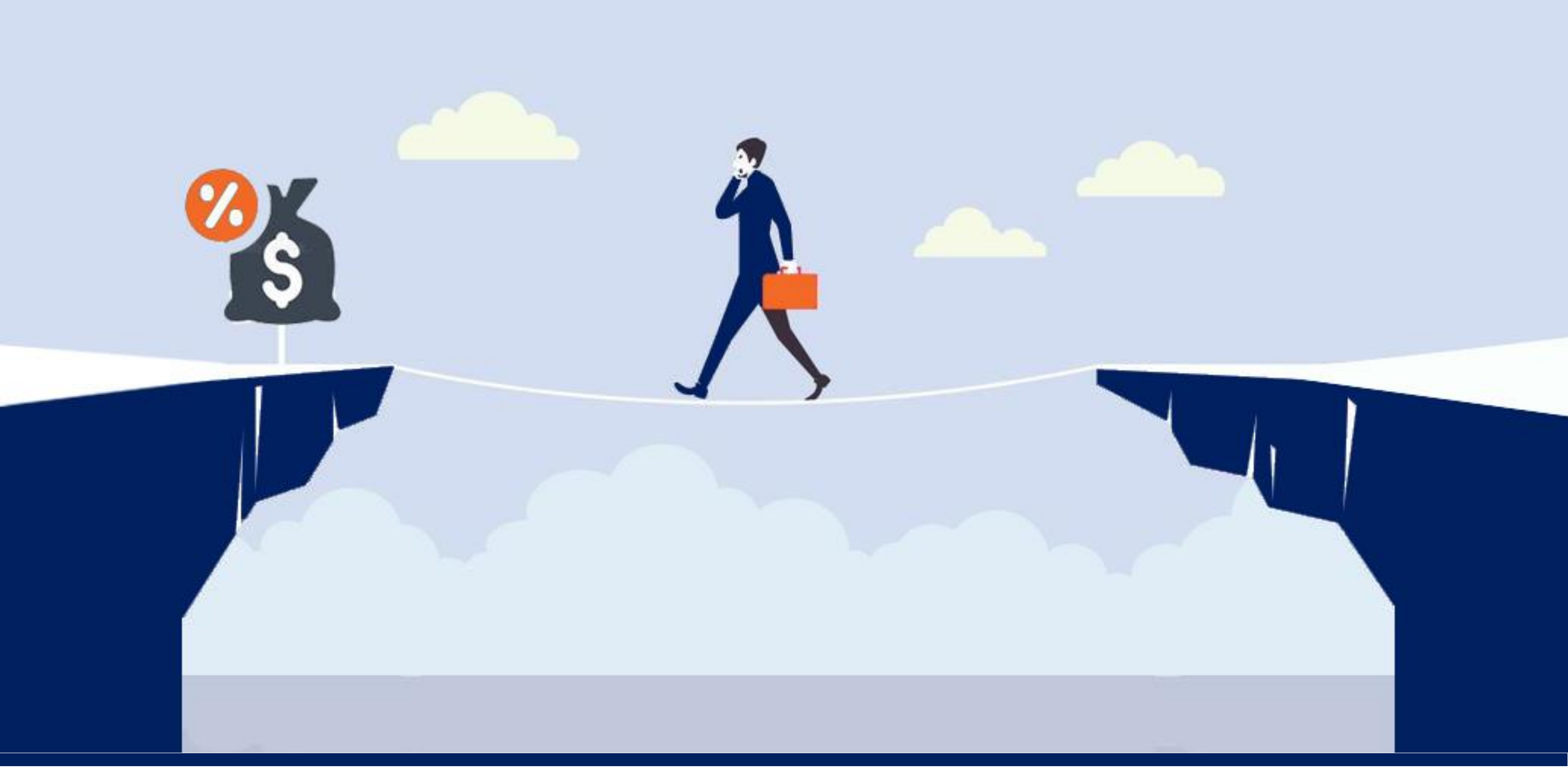
When does it make sense to apply for a mortgage bridge loan?

In a hot housing market, when bidding wars are common and you've got to make a snap decision, a bridge loan can free up some liquidity to help you get your dream home.

Not only that, bridge financing can also help you get a jump start on renovations in your new home before you even move in. And, perhaps most importantly, bridging a mortgage can also alleviate stress.

"If you don't close on your new purchase before you finalize your sale, you will either need to close both properties on the same day, or vacate your first property before you are able to enter your newly purchased property," says Turk.

"Closing two properties on the same day can be stressful, so allowing a few days between the two closings gives you time to get everything done."



What to know about bridge financing rates?

There are a few things to be aware of, however, when signing up for a bridge loan.

Every bank is different, so the conditions and fees for bridge financing will vary. And because bridge loans are designed to be quick, they are often subject to higher interest rates, typically the prime rate (a fluctuating or variable interest rate) plus 2 or 3%.

The bank may also charge an administration fee of anywhere between $200 and $500. And a lawyer may charge a fee if some extra paperwork is required.

But if you find yourself in a pinch, it could be worth bridging the gap with a home loan. It might just offer the financial wiggle room you need to get out of your old home and into your new one.

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