Bridge Loan

Great job so far! Let's look at one more type of loan that you may come across.

A bridge (or swing) loan is designed to assist borrowers in situations where they are purchasing a new home, but their existing home has not yet been sold. The bridge loan is secured against the borrower's current home and the funds from this loan are then used to close the transaction to purchase the new home.

By utilizing the funds from the bridge loan, the borrower is able to close on a new house before selling the present home. As always, the following criteria must be met:

- The agreement outlining the terms of the repayment of the bridge loan must be present in the file.
- The bridge loan cannot be cross- collateralized against the property your borrower is purchasing.

  - This means that the security for one loan is not used as security for another loan. In this case, the bridge loan cannot be secured against both the new property and the old property at the same time.

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Bridge Loan (cont.)

- The borrower must qualify with the payment on the new home, payments on their other debts, the payment on the present home, and the payment on the bridge loan.
- The bridge loan will be paid off when that property is sold and closed.

NOTE: *Check your company or investor guidelines for reserve requirements (if any) when this type of asset is being used for funds to close. Many lenders will require at least six months PITI of reserves for the property securing the bridge loan along with any other product specific reserve requirements.*

This can be a very risky product. Most people are banking on the property secured by the bridge loan selling prior to the closing of the property being purchased. If that does not happen, the borrower may be saddled with more debt than they want to handle and could run into financial difficulty.

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