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HELOC vs. Bridge Loan as an Alternative to Refinancing: Here Are Some Considerations

One year ago, if you wanted to redo your kitchen, you might have refinanced your home to take out the needed funds. However, that would require you to obtain a new mortgage at current market rates. If you currently have a mortgage interest rate at 3%, refinancing your entire mortgage into a 6% or 7% loan should be your last resort. I asked **Jaxzann Riggs**, owner of **The Mortgage Network** to share some alternatives.

Let's Talk Home Financing

By JIM SMITH Realtor®

For homeowners who are looking for a way to access their home equity, there are two other options to explore — bridge loans and a home equity line of credit. Their use, timeframes and costs can be very different.

A bridge loan is a short-term loan that's typically utilized when buying a new house before selling your old house. It is a short-term loan, typically lasting from 6 to 36 months. It uses your current home's equity as collateral to make a down payment on your new home and can be used to cover the double mortgage payments in the short term. Many bridge options don't require a monthly payment (or a small interest payment) until the sale of your current home.

Since the term of a bridge loan is so short, there are high expenses associated with it. Along with standard closing costs, you can expect to pay between 1.5 to 3% of the loan amount in "origination" fees. There is a balloon payment due at the closing of the old home, which pays back the entire amount plus all interest and fees incurred.

Using a bridge loan today is riskier than it was a year ago, when properties were frequently sold within a few days of listing. Now that homes are sitting on the market longer, a 6-month loan term might not be enough time to prep a house for listing and get to the closing table.

A home equity line of credit (HELOC) is the more flexible and well-known loan option. A HELOC is a revolving line of credit, meaning you can use what you need up to your approved amount (normally 80 to 90% of your equity). You pay interest monthly on the amount that's currently borrowed but will only have a minimal annual fee if you aren't currently using the credit. The standard draw period for a HELOC is 10 years, meaning you can spend on the line for the first 10 years, and then will have monthly payments to repay the ending balance.

HELOCs are a great option because they allow for flexibility in how you use your equity, and the costs associated with obtaining a HELOC are lower than those associated with a bridge loan.

You can use a HELOC for home improvements, debt consolidation, or any unplanned expenses that may arise. HELOCs do have adjustable interest rates, so it's important to make sure the highest possible payment fits your budget. Since it's a revolving line of credit, you can decide how much and when you "draw down" the line.

Getting a HELOC may seem like an obvious choice when you have a large purchase in your future, but Jaxzann Riggs would argue that the time to get a HELOC is now, even if you don't have a current need. Lending regulations change and what is available today may not be available tomorrow. The future will always hold some level of uncertainty and having means to quickly access your home's equity ***for any reaso***n provides security if needed.

If you have questions, call Jaxzann on her cell phone, **303-990-2992**.