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# *What's the Best Way to Tap Your Home's Equity for Financing Your Next Home?*

Let's Talk
Home Financing

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Moving to a new home is exciting, but many homeowners are challenged when it comes to finding the funds for the down payment. While homeowners who have a **Home Equity Line of Credit** (HELOC) are able to access their homes' equity for a down payment on their new home, qualifying for it can pose other problems.

Most lenders require that your Debt to Income ratio (DTI) be under 45 to 50 percent. Your highest DTI ratio is dependent upon multiple factors. Your credit score, employment history, income stability and the size of your down payment all play a role in calculating your highest allowable DTI.

Obtaining a **bridge loan** can be a great solution if your DTI exceeds those allowed under a traditional purchase scenario.

I spoke with **Jaxzann Riggs**, owner of **The Mortgage Network** for more information about this loan type. A bridge loan uses the equity in your current home to fund the down payment on your new property.

Bridge loans are designed to "*bridge"* the financial gap between buying a new home and selling your current one. They provide temporary financing to cover the down payment needed on the loan for a new home.

Though similar to a HELOC, a bridge loan allows you to tap into the equity in your home without requiring that the expenses associated with your current residence be included in your Debt to Income Ratio. This means that you will likely qualify for a larger mortgage on your new home.

The bridge loan is underwritten as though the current home has been sold. The catch, however, is that most bridge lenders require that they originate both the bridge loan ***and*** the loan for the new property, which makes it difficult to shop for the best rate and terms on the new home loan. Therefore, it is important to evaluate and take into consideration all of the fees and rates being offered before proceeding with a bridge loan.

Another option that you might consider is the "**Buy Before You Sell**" program. Here's how that works.

A buyout company sets a guaranteed "buyout price" for your current home. It is important to note that their buyout price may be lower than the market value of your home. The buyout company then gives you an interest-free, no-payment loan based upon your equity for the down payment on your new home.

That allows you to make an offer on a new place without waiting for your old one to sell. Since it is a guaranteed sale, the monthly payment on your current home is not included in your DTI, allowing you to qualify for a larger loan on the new home.

After closing on your new home, you will then have a preset amount of time to sell your old home. Homeowners are free to select a Realtor of their choosing to help market and sell their property.

While it is not inexpensive, this strategy works for some. If your home does not sell within the pre-determined time limit, the buyout company buys your old home for the agreed buyout price. Any extra money from the sale goes back to you after paying their fee of approximately 2.4% of the sales price.

A client of mine used this technique to buy a home without making it contingent on the sale of her present home. As it turned out, I got her present home under contract in time to use her equity on the purchase, and not use the loan at all.

Whichever loan you use, you get to navigate the world of buying and selling homes with ease.

To discuss your options, call Jaxzann at **303-990-2992** for more information.