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REAL ESTATE

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RISKY BUSINESS

When Van Boughner and Phillip Gomez, left, found their dream home in Santa Cruz, they quickly bought it and put their Los Gatos home, above, up for sale. Boughner figures their savings can handle double payments for five months. Then they'll have to borrow from friends. PAGE K7

PAUL CHINN / *The Chronicle*

Ross MacKinnon and wife Stelly Kuo enjoy the view from their San Francisco home. They needed to take out a home equity loan on their previous home in Santa Clara so they could make the down payment before the home sold.

RISKY BUSINESS

If you play with bridge loans, you just might get trumped

By Heather Boerner
SPECIAL TO THE CHRONICLE

For Van Boughner and Phillip Gomez, the countdown has begun. The Los Gatos couple closed escrow on their new Santa Cruz home Feb. 15, and figure they have about five months before paying for both their new mortgage and their old home equity line of credit will be too expensive for them. At six months, Boughner jokes, he'll start calling friends for personal loans.

And every day between now and then, Boughner said, he'll know how much this gamble is costing him.

"It's stressful in two ways: One is that it's a constant money drain while we're waiting for our old home to sell, because now there's this mortgage that we'd pay off quite a bit on if we had the cash. The other is that the monthly payment for both loans is money coming out of our pocket every day," said Boughner, a Silicon Valley software engineer.

"When you buy a new home, you get that settle-

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BRIDGE LOANS ARE NOT ALWAYS GOLDEN

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ment statement that breaks (the money) down by how much it's costing you per day for the first prorated period. You get a feel right away for how much it's costing to do this strategy."

With home sales slowing, couples like Boughner and Gomez are playing a risky game. No longer content to wait months before their home sells, and desperate not to lose the house they say is perfect for them, they are betting that they'll sell their old home before their savings run out. Realtors and mortgage brokers say the market has slowed enough that it's easier to find a home to buy than it is to sell one.

"For move-up home buyers, this kind of financing problem is rather common," said Steven Hook, a San Francisco certified mortgage planner who's been in the business for 16 years. "I would guess at least 1 out of 3 move-up home buyers have some sort of cash issue. They don't want to sell their first home in advance, and they don't have enough saved up because the (cost of a new home) is so high in San Francisco. So they look at bridge financing."

Bridge financing technically describes short-term, higher-interest loans designed to cover down payments. These loans, funded by mortgage investors, have short payoff periods, from three months to a year, said Peter Ogilvie, a Santa Cruz mortgage broker and incoming president of the California Association of Mortgage Brokers.

Ogilvie estimates a loan that gives you an additional $90,000 for a down payment would run about 8.5 percent if you're expected to pay it off over a couple of years as, say, a home equity line of credit. The same loan given as a bridge loan and with a payoff in as little as one month would run about 11 or 12 percent.

A proper bridge loan will also require that you document your income and prove you can carry your home loan, bridge loan and the loan for a new home — a level of scrutiny some other loans don't require.

But when most people talk about bridge loans, they aren't talking about bridge loans proper, say many mortgage brokers. They're talking about all the ways in which people cobble together the money to afford their new home while continuing to own their old one.

Some, like Boughner and Gomez, use a home equity line of credit on their old home to make the new home's down payment. Others rely on a "family bridge loan," said mortgage broker George Duarte — a personal loan from parents or other family members that will be paid off when their home sells.

Others take out a home equity line of credit under the guise of home repairs to pay for the down payment and pay it off early, sometimes incurring fees. This strategy can be a minefield, said Hook, because brokers don't typically want to approve a loan that they know will be paid off in a few months — they're meant to be paid over several years to recoup their investment. Homeowners can be left either lying to their broker to get that home equity line of credit or stuck in the home buyer's purgatory of carrying four mortgages: two new mortgages for the new home, and the first mortgage and a bridge loan for the old home, sometimes for six months at a time.

Stelly Kuo and husband Ross MacKinnon took the risk. The couple was living in Santa Clara when

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MacKinnon's computer company moved to San Francisco. It took a few months of the 45-mile rush-hour commute to persuade the couple to sell their three-bedroom, single-family home in the suburbs and move to San Francisco. The problem was that for tax purposes, the couple didn't want to sell the home until September.

When they found a semi-detached home on a peaceful street near Mount Davidson with room to expand, the couple took the plunge, and decided to pay the few months of triple mortgages — old home loan, new home equity line of credit for the down payment and new, interest-only mortgage for the new home. "We took out a home equity line of credit based on the reappraised value of our home in Santa Clara," said Stelly Kuo. "They just asked how much we thought the house was worth. We wanted to sell it for about $750,000, and that gave us an extra $100,000 in equity for the down payment."

The problem? When they put their home on the market they found that what the market would allow was less than they'd gotten in the line of credit. They listed the house for $725,000 — $25,000 less than the $750,000 on which they'd based their line of credit, and eventually sold it for $10,000 less than that. Suddenly, they had to come up with an extra $35,000.

"We still had some savings," Kuo said. "When we put in the offer, that came out of our savings. By then, we already had this place so we had to make it work. What was stressful for us was the timing. We couldn't buy too early or sell too late. Everyone tells you to sell first, but we wanted to move up here and we couldn't wait until September."

Today, the two are pleased with the decision and don't regret spending some of their savings on the down payment. Now that their old home has closed, they've paid off the line of credit and have turned their eyes toward settling into their new urban environment and making improvements on their home. "Our biggest struggle now is to decide what to upgrade first and dealing with budgets," she said. "We expected to have more money and we're in a crunch as to what we can and cannot do."

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How to make sure your bridge doesn't collapse

When Mary McIntyre, 47, started looking to trade up from her Daly City condo last year, she found a house she thought would be perfect. But her condo hadn't sold yet. So she let the perfect house pass her by. Then, late last year, she found a house near her nursing job and bought it.

For one day, she owned no property as her old condo sold and she put 50 percent down (the entire equity in her condo) on her new single-family home. But if she hadn't sold her house, McIntyre, a single woman, said she would have walked away from her new four-bedroom house, too.

"When I looked at it financially, I thought (buying before she sold her old place) would be a stupid risk for me to take. I thought, 'That's dumb,' " she said. "It's not worth it for me, not if at the end of the day I'm 100 percent responsible for myself and my finances."

Not everyone goes for a bridge loan, of course. Some simply get 100 percent financing or interest-only loans that don't require a down payment. Others sell their homes and are content to rent for a few months if they don't find the right home right away. And others, like McIntyre, insist on selling their home before they buy a new one. Mortgage broker George Duarte of Horizon Financial Asso-

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ciates in Fremont recommends the last option.

"For someone to pull cash out of a property and put it into a down payment before the home sells, that's kind of aggressive," he said. "It's critical that people have good advice and do their homework. Making that assumption (of how much your home has appreciated to get a home equity line or a bridge loan) is unrealistic in this marketplace. Unless you know for a stone fact what your home is now worth, it's kind of speculative."

To figure out the best option for you:

Consider your comfort level with risk. If you have the financial capacity, financial help from a spouse and the stomach to carry more than one or two loans at once, a bridge loan or home equity line of credit might be for you.

If not, consider selling your home first and requesting a longer escrow period from the buyer. You can ask for an escrow up to 120 days, said Duarte. That will give you time to look for your new home, he said, and reduce the risk that you'll take on more debt than you can handle.

Consider the recommendations of experienced professionals. You should always look for a real estate agent and mortgage broker with extensive experience and get referrals from others in a similar situation. But remember that you're paying for guidance as well as help processing loan and home purchase forms, said certified mortgage planner Steven Hook. "I wouldn't necessarily work with someone who guarantees the lowest rates and fees," he said. "You can get the best rate on the wrong loan, and that can cost you thousands if not hundreds of thousands of dollars."

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>
> GEORGE DUARTE, *mortgage broker*

Get it in writing. It may seem obvious, but sometimes what you hear your mortgage broker say and what she actually said can be two different things. Don't make costly mistakes because of a misunderstanding. Ask your broker to put everything in writing before you make a decision.

Consider your Plan B. Take a hard look at your finances and figure out how long you can afford to pay your bridge loan, and then come up with backup plans. Do you have savings to cover any home sale shortfalls? Can you rent your home while you're selling it? Run your ideas past your experts and non-biased people you trust, such as an accountant.

— Heather Boerner