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San Francisco Chronicle

How to make sure your bridge doesn't collapse

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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 Associates 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."

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

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