Bridge Loans

Bridge loans are needed when your newly purchased home is closing after the sale of your current home is closing and you need to temporarily borrow the sale proceeds.

To get a bridge loan, you must have a firm sale agreement of your current home.

The best way to explain is by example:

You bought a new home: 123 New Home Ave and paid $500,000.
Closing is June 1st and you need a mortgage of $300,000.

You sold your current home: 456 Goodbye Lane for $400,000.
Closing is June 15th and after all mortgages and fees are paid, you'll have $250,000.
left over in net proceeds (gross profit)

So June 1st is approaching, and you need the following:

$500,000. (price you paid)
Less $20,000. deposit
Leaves $480,000. remaining/balance owing
Add in $9,000. closing costs also needed (land transfer, Lawyer fees, etc.)
You'll need a total of $489,000. on June 1st to close

Your lender will advance your mortgage of $300,000. to your lawyer
The balance needed, $189,000. is what we call a bridge loan and your lender will also advance this amount on June 1st to your lawyer so you can close

As June 15th approaches, your lawyer will take care of everything for the closing
Once he gets the $400,000. from the buyers of 456 Goodbye Lane
He pays out your mortgage on this property
He pays out the bridge loan and the fees for setting up the bridge loan
He pays the realty fees associated with the sale
He pays all other associated fees and you get what ever is left over