

Buy or Sell

by Joel Ward

Every year, hundreds of families sell their homes and purchase new ones. Nevertheless, the process can sometimes be a little complicated. In what follows, I will discuss some of the important issues which need to be considered.

Down payment: Often, the source of the down payment on your new home is part of the equity realized from the sale of your current home. If you choose to buy before you sell, then the down payment needs to come from another source. One common source is a “bridge loan” whose name tells you what it does: It “bridges” the time gap between the purchase of your new home and the sale of your current home. Typically, “bridge loans” are a type of second mortgage secured by your current home, and interest rates are similar to other second-mortgage rates. It is important to speak with your banker about the possibility of “bridge loan” financing, as well as to make sure that you are well qualified to manage the monthly payment on your new home as well as the one on your current home, if this becomes necessary.

Closing Dates: Working to negotiate the most advantageous closing dates is critically important in this process. When no mortgage financing is involved, closing dates can be scheduled as soon as 10 days after the date the contract is signed, or as long as both buyer and seller agree. Typically, though, mortgage financing is involved, and the minimum time to close is 2-4 weeks. On the other hand, most mortgage lenders will not lock the current interest rate longer than 60 days.

In selling your current home and purchasing a new one, there are three basic strategies:

1. Put your current home on the market right away, and purchase a new home before your current home sells.
2. Put your current home on the market right away, and wait until it sells before you purchase a new home.
3. Buy your new home before you begin marketing your current home.

1. Put your current home on the market right away, and purchase a new home before your current home sells.

This strategy is often used by families who find the home they want to buy before they have a contract for the sale of their current home. They don't want to wait until their home sells and run the risk of someone else purchasing the home they have found. This family would want to negotiate a longer closing period on the purchase transaction, to give them more time to sell their home. Then, they would want to negotiate a shorter



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closing period on the sale of their home to come as close as possible to the closing date on their purchase.

The disadvantage is that this family would probably need a “bridge loan” for a period of time, if the closing on the new home is sooner than that on their current home.

2. Put your current home on the market right away, and wait to purchase a new home until you have a contract for the sale of your current home.

Some families wait until they have a contract pending on their current home before they make an offer on their new home. Then, it’s just a matter of working to match up the closing dates of both transactions. The main advantage of this strategy is that it increases the likelihood that you will not be in a situation where you need to take out a “bridge loan” or make “double payments.”

The disadvantage to the strategy is that it places a “deadline” on the time you have to shop for your new home. If you are successful in negotiating a longer (say 60 day) closing period on the sale of your home, and a shorter (say 30 day) closing period on the purchase of your new home, then you would have 30 days to shop. For most families, and in a typical market, this is plenty of time. But whether this is enough time for your family depends on the current inventory of homes which meet your particular criteria.

3. Buy your new home first, then begin marketing your current home.

The main advantage of this strategy is that it gives you more time to “shop” for your new home. This strategy is particularly appropriate for families who have very specific and hard-to-find needs for their new home. For some families, it may take several months for the right home to come on the market.

The disadvantage of this strategy is that the time period from the date a contract is signed for the new home to the date of closing is typically no more than 60 days at the longest. If it takes longer than this to market and close the sale of your current home, then you will need to be comfortable buying the new home while still owning your current home. This could result in some period of “double payments” as well as a “bridge loan” for the down payment on the new house.



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