HOW TO MAKE YOUR MONEY WORK?

When selling your home, you likely will use the proceeds to pay off the mortgage and then apply any remaining money toward the next property. But until that sale closes, you'll need to come up with the money for a down payment and have financing set up to buy the next home. Some homeowners tap into savings accounts for the down payment on the next house. But not everyone has a hefty enough balance to make that work. Here are some other options.

HOME EQUITY LINE OF CREDIT

You could use a home equity line of credit, or HELOC, on your current home to draw cash for the down payment. But you'll need to have the HELOC already in place; a lender won't approve the credit line after you've put your house on the market.

Don't wait until the last minute to apply if you think you might use a HELOC someday to finance the next purchase. Sometimes a line of credit can take longer for approval than a first mortgage.

BRIDGE LOAN

With a bridge loan, you can borrow up to 80% of your home's value to pay off the old mortgage and put any remaining money toward a down payment on another home. Or you can use a bridge loan as a second mortgage to borrow a portion of your home equity for a down payment.

You make interest-only payments on the loan, and the maximum term is typically a year. But usually, bridge loans are paid off much more quickly because they're designed to fill that short gap between the old-house sale and new house purchase.

Because the term is short, interest rates are a couple of percentage points higher on a bridge loan than on a regular mortgage. Some applicants who get approved for bridge loans don't even need to use them because the sale ends up closing before the purchase after all.

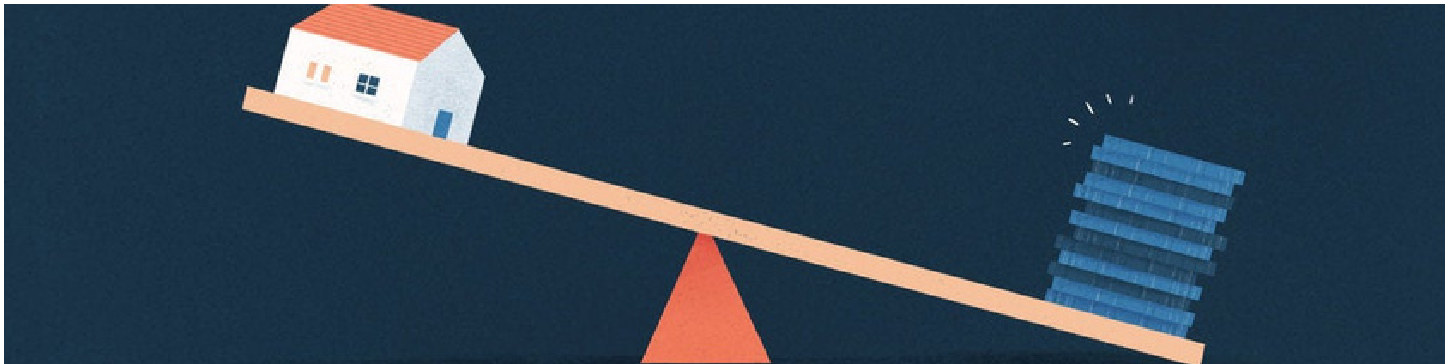
401(k) OR OTHER INVESTMENT ACCOUNT LOAN

You can borrow against a retirement or other investment account to get money for a down payment. Depending on who is managing your 401(k), you can borrow a percentage for your down payment, at reasonable interest rates. To determine what percentage you could borrow it would be wise to reach out to your Human Resources contact at work or your 401(k) company if you can contact them directly.

The upside to borrowing against an investment account is that lenders don't count that loan as debt when calculating your debt-to-income ratio for a mortgage preapproval, Blonder says. Ideally, you'll repay the loan against your investment account as soon as your home sells.

Just make sure you stick with your plan to repay the loan after the old house sells and resist the temptation to use the money for other things. Defaulting on a loan from a 401(k) account can trigger taxes and penalties.

LOW-DOWN-PAYMENT MORTGAGE



One option is to get a low-down-payment conventional mortgage to purchase your next home. Then when the sale of the old house closes, apply the proceeds toward your new home and get your mortgage recast.

When recasting the loan, the lender applies the lump-sum payment toward the principal and redoes the amortization schedule, which shows how much of each payment goes toward interest and how much goes toward reducing the debt. Recasting the mortgage will lower your monthly payment, and it's a less costly and simpler process than refinancing a mortgage, Smith says.

But plan ahead. Not all lenders offer mortgage recasting. And this service is not available for government-backed loans, such as FHA, USDA, or VA loans.