How to Buy and Sell a House at the Same Time

Selling your house and buying another home at the same time is the ultimate feat in multitasking, and it comes with a tricky timing challenge.

If you have a mortgage on your current home and you buy a house before selling, you could get stuck with loan payments and the cost of upkeep on both properties. If you sell your house before buying, you might have nowhere to go after the sale closes.

But with planning, the right financing and strategic pricing and negotiating, you can time the sale and the new purchase in a way that works for you.

Here are some strategies to make it come together.

Laying the groundwork for buying and selling

There's lots of prep work for buying and selling, so start getting ready for both as soon as you can.

"The more you plan, the more it will save you from making big mistakes," says Brian G. Smith, vice president of national business development at Union Home Mortgage in Ohio.

Get ready to sell

A good listing agent can provide guidance on how to prepare your home for the market.

That will include making any necessary repairs to remove red flags for buyers, as well as decluttering and cleaning, says Joey Sheehan, an agent with Berkshire Hathaway HomeServices Fox & Roach, Realtors in Bryn Mawr, Pennsylvania.

"Almost every house is too cluttered from the point of view of selling because selling a home is an entirely different activity from living in it," Sheehan says.

After cleaning and decluttering, get photographs and videos of the home completed so those materials are set to go when you're ready to list the property, recommends Christian Ross, managing broker for Engel & Volkers in Atlanta.

Get ready to buy

"Number one is to make sure your finances are in order. A lot of people say, 'Oh, I know, I have great credit. I know I can get approved,'" Ross says. "But lending guidelines are changing every day."

To get an offer accepted in today's hot housing market, you'll either need to have cash to buy it outright or be fully preapproved for a mortgage to finance the home, without any conditions from a lender that your existing home must sell first.

"The preapproval process for all borrowers should really start before they jump in and begin house hunting," says Brian Blonder, senior vice president for mortgage sales at Capital Bank in Maryland.

How to make the 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 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, Blonder says.

Don't wait until the last minute to apply if you think you might use a HELOC someday to finance the next purchase. Smith says 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 for 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. A 401(k) loan, for instance, lets you borrow up to half the balance or up to $50,000, whichever is less, at reasonable interest rates.

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.

A new way to buy and sell

A variety of newer companies, such as Homeward, Knock, Opendoor, Orchard, Ribbon and others are remaking the way homes are bought and sold. Their services vary, but generally they provide financing so you can make a cash offer on your next home before closing the sale on your existing home — and avoid paying for two mortgages at once.

For example, with Homeward, you get approved for a mortgage and work with the company to make a cash offer on a new home. You can use your own lender or the company's lending affiliate, Homeward Mortgage. If your offer is accepted, you move into the home after the purchase closes and list and sell your old home. While you're waiting for your old home to sell, you rent your new home from Homeward for up to six months. If your old home doesn't sell in six months, Homeward says it will buy it from you. Once your former home is sold, you close on the new home.

These companies comprise a sliver of the real estate market today and operate only in certain markets. So you'll need to check whether their services are available in your area, see if you and your property qualify, and then compare the costs versus going the traditional route.

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> ***-Brian Blonder, Senior VP for mortgage sales of Capital Bank***

Getting the timing right

Once your financing is in place, a real estate agent can help you time the sale and purchase. One way is to negotiate the closing dates to work best for you.

"It's not so hairy if you really think it through and get everything organized properly," says Sheehan, author of "Open House!"

Here's how she has helped clients make everything come together on the same day:

- Her clients get their house ready to sell, and then shop for a new home.
- Once they're under contract to purchase and the inspection and negotiations are completed, they put their current home on the market and indicate a settlement date timed to coincide with the purchase closing.
- The sale of their old home closes in the morning, after all their stuff is on the moving van.
- The purchase closes in the afternoon, and they move in.

If the purchase will close a day or more after the sale closes, you'll need a place for you and your stuff. If it's only for a day or two, maybe you stay with friends or at a hotel and keep your belongings on a moving truck.

But if it's much longer, you can negotiate a "rent-back" agreement with the buyer. These agreements usually top out at 60 days but often are used for just a few days to give sellers some flexibility, Ross says. In today's competitive market, some buyers offer to let the seller stay for free.

Just be aware that squabbles can arise with rent-back arrangements. What happens, for instance, if the former owner gouges a hole in the wall? Your real estate agent can guide you with setting up the agreement and including language in the contract to protect both parties.

Can't finance before you sell?

If you can't qualify to finance a purchase until the sale on your first home closes, Ross says to plan where you'll live after you've sold the property and until you find a new home. In today's market it may take a few months to find a home and win a bidding war. She recommends looking for a rental property with a short-term lease or one that lets you leave with a month's notice.