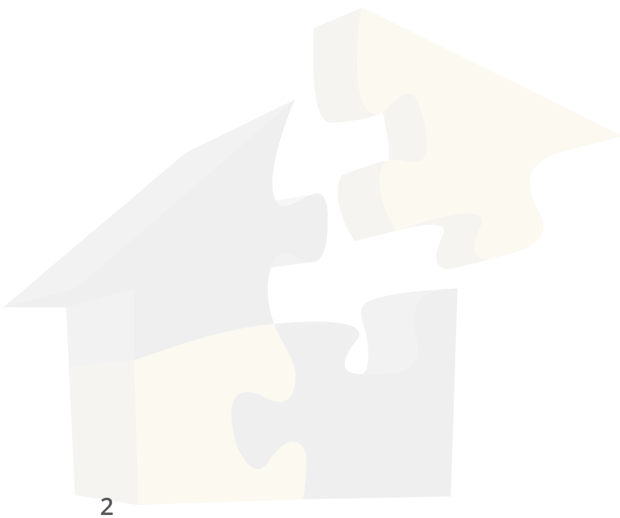
A Beginner's guide to Bridging Finance

Tel: 023 8045 6999

bridging-booklet-v4.008022016

Contents

Introduction	3
What is a bridging loan?	4
How do bridging loans work?	5
Why are people using them?	6
When would someone need a bridging loan?	7/8
What properties can bridging loans be used on?	9
How much can a client borrow?	10
Bridging loan payments and interest rates	11
Conclusion	12



Introduction

The improving economic climate and growing bridging loan availability have led to bridging finance becoming an increasingly appealing option for investors and business. This guide will help you understand the bridging market and hopefully give you confidence to use Complete FS.

The changing face of bridging loans

While bridging finance was once a specialist product, it is being used in investments made across the UK with greater frequency. More borrowers are starting to recognise how they can apply the short term loan, and are utilising the funding to benefit their property transactions and their businesses.

Popular for a number of purposes, bridging loans are being used to support commercial and residential property transactions, auction purchases and renovation and development projects. Meanwhile, businesses are taking out the funding option when they require a quick cash injection.

In particular, it can be seen that the bridging market has gained momentum from a growing confidence in the housing market. Investments in building and development initiatives and buy-to-let schemes have increased demand for bridging loans, as it gives investors the opportunity to renovate and refurbish a property that could not be financed by a standard mortgage from the outset.

What is a bridging loan?

A definition

A bridging loan is a short-term loan (usually 12 months or less) that can be used by individuals and businesses for any purpose until permanent funding, or their next stage of financing becomes available, or they sell a property.

Fast, flexible and secured, it provides borrowers with the quick cash injection they require, which they may have been unable to secure elsewhere within a reasonable period of time.

Two types

There are two types of bridging loans:

- Closed bridge: The borrower has a set date when the loan will be repaid. For example, the borrower has already exchanged to sell a property and the completion date has been fixed. The sale of that property will repay the bridging loan.
- Open bridge: The borrower sets out a proposed exit plan to repay their loan but there is no definitive date at the outset. There will be a clear cut-off point that the loan has to be repaid by. The majority of bridging loans are on this basis.

What are the main uses of bridging loans?

Bridging finance can be used in both commercial and residential property transactions.

Home buyers, home builders, barn converters, landlords, property developers and investors can use the short-term loan. Whether buying a property, building a property or raising funds for a refurbishment project, the short term loan can be an option.

The funding option can also be used by businesses in need of short-term funding. Whether they need to raise capital, meet a business obligation or settle tax liabilities, it can help a business to resolve any emergency situation or take advantage of a new opportunity, for example, buying a new piece of machinery.

How do bridging loans work?

One of the differences between a regular term loan and a bridging loan is the time it takes to organise the funding. It can take months for a regular lender to complete a deal, but bridging loans can be drawn within days. But often its more about the type of security and its current use, often renovations or work is needed to make it fit for a normal lender.

The process

When you arrange bridging finance, you can expect the following:

Broker to send Complete AIP, we place enquiry and provide options to broker

↓

Broker selects the lender and lender AIP submitted by Complete

↓

Lender issues an indicative offer stating the terms of the proposed finance & what documents are required for completion

↓

Complete or the lender instructs the valuation and other documents collected by broker

↓

Solicitor instructed by lender

↓

Client signs all documentation and returns to solicitor

↓

Funds are released to the solicitor for completion

↓

Within days Complete pay procuration fee. Job done.

The process will usually take between 7 to 28 days. Sometimes, this can be reduced to just a few hours, depending on the case and the set of circumstances involved. Similarly it could take longer in the case of a complex development loan which requires a number of conditions to be discharged by the Local Planning Authority. The trick is to instruct the right solicitor who understands bridging finance and deadlines.

Once the client receives the funds, they will be expected to repay the loan back by the end of the term. Interest payments can be made in monthly instalments, but most often retained from the loan at the commencement of the loan.

Why are people using them?

An increasing number of individuals and businesses are starting to use bridging loans to benefit from the short-term financing solution and flexibility that they provide. The funds allow people to take advantage of opportunities that arise, secure property deals (some properties at discounted prices) and also resolve emergency situations, which they would have otherwise been unable to do.

The interest rate quoted are based on a monthly rate, not annual. The average rate is around 1% per month.

We have seen rates come down substantially in recent years as lenders come to market and want a share of the spoils. The lowest rate is now below 0.60% per month. Even more reason to consider bridging finance for your clients.

So when would someone need a bridging loan?

Bridging loans (short-term finance) are being used for a wide variety of reasons, including:

For homeowners and property owners

- **Quickly securing a property:** People can buy a new property before selling an existing one to prevent them from missing out on a property they want to purchase.
- **Repairing a broken property chain:** The loan can prevent a homeowner from missing out on purchasing their new home if a buyer in a property chain drops out.
- **Building a house:** People wishing to realise a dream and build their own home.
- **Downsizing:** These property owners do not require mortgages, and can use a bridging loan to buy before the sale of their existing property so they can move quickly and independently. These are mainly used by the elderly.
- **Converting a barn (or other property):** For people wanting to live in peace and tranquillity in the countryside or for developers looking to turn a profit.
- **Auction Finance:** For people buying property at auction, bridging finance can allow them to complete the transaction in the time provided for by the auction contract.
- **Temporary Cash Flow Cover:** Borrowers needing temporary cash flow can use a bridging loan as a quick injection, either a first or second charge.

For property developers and investors

- **Un-mortgageable properties:** Bridging loans can also be used by people fixing up dilapidated properties, where traditional mortgages would not be approved, for example, where properties have no bathrooms, toilets or kitchens.
- **Renovation and development:** The funding option can be used by those wanting to renovate a property, or those wanting to develop a piece of land into one house or even multiple houses.
- **Quick access to funds:** Bridging loans can be used to take advantage of market conditions and discounted investment opportunities, helping to finalise negotiations so that those opportunities are not missed.
- **HMO refurbs:** The HMO and Student Let market has risen in popularity with both landlord, and lenders in recent years. The refurbishment of these properties has enabled bridging lenders to provide finance before moving to a term loan.

For businesses

- **Raising capital:** Bridging loans can be secured against land and property so that companies can raise the sums of money needed in a short time frame, for example, buying stock as an alternative to asset purchase finance.
- **Tax liabilities:** Businesses can use bridging loans if a tax demand is made, and the amount cannot otherwise be accessed within the required time frame.
- **Meet business obligations:** Borrowers looking for short term funding to meet business obligations and payments or overcome financial difficulties can use a bridging loan as a possible option.

For most individuals and businesses, bridging loans are used at times when there is a temporary cash flow issue or a tight deadline, where a quick, short term loan is required to rectify the situation or provide the solution.

What properties can bridging loans be used on?

Bridging loans can be secured against different types of properties being residential, semi-commercial, commercial or land, and enabling options such as:

Properties to buy

- A new residential property, commercial property, investment or trading property
- Buy-to-let purchases
- Quick completion of a property purchase to benefit from a discounted price
- Auction purchases with pre-auction bidding facilities agreed

Properties to build and renovate

- Housing developments
- Barn conversions
- Refurbishment projects to sell on for profit or retain for rental income
- Building your own home

Properties where funds need to be raised

- Un-mortgageable properties
- Buying before selling
- A short term solution for a cash flow problem

How can bridging finance be used on un-mortgageable properties?

Bridging loans can be used by investors looking to purchase properties that cannot have a normal/standard mortgage secured on them until the necessary corrective work is carried out, including:

- Properties with no bathroom
- Properties with no kitchen or even multiple kitchens
- Non standard builds

The refurbishment of an un-mortgageable property can increase its value following the completion of the work. Bridging loans provide investors with the opportunity to buy these often derelict properties and start their renovation project prior to letting and securing long-term finance or selling for a profit.

Bridging loan providers may take into consideration an investor's current property portfolio as well as their potential purchase, making sure that they have the appropriate land or property to use as security. Investors can therefore use the equity on a current property to meet the value of the bridging loan they require, so that they can buy the new property. Often a second charge is used as additional collateral which may well reduce the LTV on the deal.

Once renovation work has been carried out and the property has been made habitable,

How much can a client borrow?

The amount that can be borrowed depends entirely on the lender and the borrower's circumstances. Whilst most lenders will lends up to 70% of the value, some will go to 75% or even 80%.

All regulated bridging loans the maximum term is 12 months and the interest will always be retained, not serviced.

The minimum loan size is £10,000 there is no maximum as most lenders will review each case this can vary from one provider to another with some lenders offering to provide loans significantly in excess of £10,000,000.

Bridging loan payments and interest rates

Some bridging loans are structured so that the borrower pays interest each month and repays the loan at the end of the term. This arrangement suits those who have access to a good cash flow for the duration of the loan, and who will be able to meet the monthly interest payments. Other options are rolled up interest or retained interest.

The actual rate paid by the borrower will depend on a number of circumstances, including:

- The lender (regulated lenders tend to be more competitive)
- The size of the loan in the loan to value (LTV)
- The type of security provided by the borrower (residential or commercial)
- The risk to the lender

Typically the following will apply to bridging loans:

From 0.59% Interest rate per month → 2% lender arrangement fee → Up to 80% loan to value

The interest rates on bridging loans are higher than standard term mortgages as they often carry more risk to the lender.

Rolled up interest

Borrowers can sometimes choose to have their interest rolled up. This means that they do not have to pay interest every month but instead pay the rolled up interest at the end of the term.

This is suited to borrowers unable to make monthly interest payments. In these circumstances, interest is typically compounded. So, while a borrower will not pay interest monthly, the repayment at the end of the term will be larger.

Retained interest

To assist in meeting monthly interest payments, borrowers can sometimes choose to retain from the loan an amount representing a number of monthly interest payments. The borrower can choose the number of months (if affordability criteria can be satisfied). The retained interest is still part of the capital sum of the loan, so interest will be charged on this amount. The total loan must fit within the loan to value. If there is any retained interest which is not utilised by the time of redemption of the loan, most lenders will normally return this to the borrower.

Will the client need a specialist solicitor?

From our experience it is recommended that borrowers use a solicitor who understands bridging lenders and the urgency/complexity around the product prior to signing any legal documents and entering into a bridging loan.

Precise will allow duel representation which means the same solicitor will act for both lender and client. This can save time and certainly additional legal fees. Nearly all other bridging lenders will instruct their own lawyers at the clients expense.

Conclusion

Bridging loans are becoming increasingly recognised as useful and valuable by individuals and businesses looking for quick, short term funding solutions.

Complete prides itself in having a very comprehensive panel of bridging lenders who meet the needs of clients short term funding. We have the expertise to source the right lenders and the relationship to ensure the loan completes.

Bob Hope

Tammy Chalk

Julie Sides

So call the Bridging team now on 023 8045 6999