

TAB guide: how does a bridging loan work?

Education

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A bridging loan, also known as bridging finance, is a short-term financial solution. Typically, it is used to bridge the gap if you'd like to buy a new property before selling your old one. If you need capital fast, for example, if you bought a house at auction, a bridging loan would be there to help you secure the property.

In this guide, we explain how bridging loans work, what they can be used for, and how TAB can help you secure the home you want.

Is a bridging loan like a short-term mortgage?

There are similarities between mortgages and bridging loans. Just like a traditional mortgage, a bridging loans company will secure the capital lent to you by taking charge over the property. Some high street banks offer bridging finance. But, in our experience, it's best to utilise the expertise of a [bridging loan specialist](#).

This gives the lender protection because the property cannot be sold without you, the borrower, paying back the loan. Just like a mortgage, the lender can force the sale of a property if the bridging loan is not being repaid.

However, unlike mortgages, bridging lenders do not expect monthly repayments. They take into account that you will need to raise the funds – usually by selling your old property – to be able to pay back the borrowed capital and they can retain the interest owed and include it into the total loan. It is worth remembering that the quicker you pay the loan back, the less interest you will accumulate.

The bridging loan process

To secure a bridging loan you will need a high value asset. Bridging loans are secured, so you will not be granted one without having land or property in your possession.

Here's how the process usually works:

1. You want to purchase a new investment property priced at £700,000
2. You want to put down a deposit of £200,000 with the rest being borrowed from a mortgage lender
3. You have £80,000 in cash, meaning you require £120,000 more to meet the £200,000 deposit
4. You're waiting for another property to sell valued at £500,000
5. You take out a bridging loan for one year for £145,000 which includes rolled up interest using the property valued at £500,000 as your security
6. You have £120,000 to add to your £80,000 cash, now you have £200,000 to deposit
7. You pay the loan £145,000 loan back when your property sells for £500,000

Is a bridging loan for residential properties only?

Bridging loans can be utilised by residential property owners, landlords, developers, and investors. If you need to bridge a financial gap relating to a property purchase it is a suitable finance option.

Furthermore, there are other scenarios when bridging finance can be used. These include:

- Buying a property
- Developing a property
- Land with planning purchases
- Carrying out renovations
- Buy-to-let investments
- Business ventures
- Paying a tax bill
- Divorce settlements

Are there different types of bridging loans?

There are several types of bridging loans: closed and open, regulated and unregulated, first charge and second charge.

What is a closed bridging loan?

These have a fixed end date which is when you will need to have paid the loan back. These are commonplace when you know there is an exact date you will have the funds available to facilitate repayment. These are commonplace when your property has sold and you have exchanged contracts, but you're just waiting for completion.

What is an open bridging loan?

Open loans have no fixed repayment date. The lender will often give a year to settle repayment, but it can be longer based on individual circumstances.

What are regulated bridging loans?

Regulated loans are regulated by the FCA while unregulated ones are not. Put simply - a regulated bridging loan is a loan that is secured against a property that the borrower (or their immediate family) currently or intends to occupy.

What are unregulated bridging loans?

Unregulated bridging loans are unregulated when the secured property is for an investment or business purpose and is not a person's primary residence.

What is a first charge bridging loans?

A [first charge bridge loan](#) is a loan on a residential or commercial property. In the case of a first charge, the lender will take precedence and first rights on the property. This means that the property could be sold by way of repossession to recover the value of the loan and any associated costs should default occur.

What is a second charge bridging loan?

[Second charge bridging loans](#) on residential and [commercial](#) property allows you to borrow money, providing there is enough equity whilst leaving your existing first charge in place. A second charge loan applies if you already have a loan secured against a property that already has an outstanding mortgage. For property improvements such as extensions, you would likely need to take out a second charge bridging loan if you already have a mortgage on the property. The distinction lets the lender know who has priority in the repayment if you can't pay off the loan by the end of the term.

Is a bridging loan right for me?

Before you get started on your bridging finance journey you will need to evaluate if the finance option is best for you.

- Do you want to borrow between £100,000 and £10 million?
- Do you know how much your current property is worth?
- Do you have an idea of how long you'd like to borrow for?

If you answered yes to these questions, then a bridging loan could be right for you. There's just one more question...

- Do you have a mortgage on your current home?

If you have a mortgage on a property, it can affect the type of loan for you and the legal charge, as well as the amount you can borrow. However, this can be discussed when liaising with potential lenders.

How can TAB help with bridging finance?

Whether you're buying a new home, expanding a business, or about to undertake a development project you will want to secure bridging finance that is suitable for your needs. Furthermore, you will want a lender that provides a simple process and that has years of experience. This is where TAB can help.

Our experts are ready to help you make the most of a bridging loan and we will take the time to match your project with the right investor. Call us today on 0208 057 9070 or email sales@tabhq.com.

TAB is not authorised by the Financial Conduct Authority and TAB loans are unregulated. You will have no access to the Financial Ombudsman Service (FOS). Any property used as security is at risk of repossession if you do not keep up with your payments. If you are unsure of the risks, you are advised to obtain appropriate professional advice.

Capital is at risk. Property values can go down as well as up. Borrowers may default and investments may not perform as expected. Interest and income are not guaranteed. Returns may vary. You should not invest more than you can afford to lose. TAB is not authorised by the Financial Conduct Authority. Investments are not regulated and you will have no access to the Financial Services Compensation Scheme (FSCS) or the Financial Ombudsman Service (FOS). Past performance and forecasts are not reliable indicators of future results and should not be relied on. Forecasts are based on TAB's own internal calculations and opinions and may change. Investments are illiquid. Once invested, you are committed for the full term. Tax treatment depends on individual circumstances and may change.

You are advised to obtain appropriate tax or investment advice where necessary. Understand more about the key risks [here](#).

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