

Beginner's guide to bridging loans

Education

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New to bridging and don't understand the differences between first and second charge, LTV or why you would need bridging finance in the first place? We've pulled together a guide for you to get started and understand the basics.

What is bridging finance?

Bridging finance or a [bridging loan](#) is a short term loan secured against property when a borrower needs access to capital. In TAB's case, we provide unregulated bridging loans secured against property, land and developments.

Why use a bridging loan?

There are many reasons why people use bridging loans but typically, they are used when an individual wants to purchase an investment property before they complete the sale of another. Whilst the sale of the previous property would provide the funds for the purchase of the new property, this can sometimes be a long process, and the individual may want or need to purchase the new property sooner than that would allow. A bridging loan will cover the cost of the new property purchase, meaning the borrower does not have to wait for the sale of the current property to have the required funds.

What is the difference between 1st charge bridging loan and a 2nd charge bridging loan?

Just like a mortgage, the bridging finance company will secure its loan by taking a charge over the property. First charge refers to the first loan taken over the property, and as such, the lender of the first charge bridging loan will be repaid first. A second charge loan might be required if the borrower requires more funds and so needs a second loan over the property. When the borrower repays the loan, the lender of the first charge will be repaid first, and the second charge lender will be paid subsequently.

What is loan to value (LTV)?

LTV, in short, is a number that lenders use to determine the risk they're taking on when lending money. It is a measure we can use to establish a relationship between the loan amount and the market value of the asset that is being secured against the loan.

In TAB's instance, LTV measures how much a borrower has requested for a loan against the value of the asset being used as the security.

Over time, as property prices change, the value of the asset can go up or down, this means that the value of the LTV can change too. You can read more on LTV [here](#).

What are the benefits of bridging loans?

Bridging loans tend to be more accessible and flexible compared to conventional loans. Many bank lenders have very strict restrictions on types of properties they will provide loans for. Traditional tick box lenders tend to be more commercially minded, and so may not offer loans on properties that they deem unsuitable, for example, if they believe them to be un-mortgageable or uninhabitable. They then may offer a loan on a below market valuation. Bridging lenders can use their flexibility and expertise to consider the full value of the property and lend against it. Bridging loans also have the benefit of being quick to access - at [TAB our quickest loan we were able to complete was within 48 hours!](#) It should be noted though, that 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.

What else can bridging loans be used for?

Bridging loans can be used in [circumstances other than those mentioned above](#). You can get auction finance, refurbishment [loans](#), development [finance](#), or [land finance](#). There are also many instances where a traditional bank lender would not want to approve a loan, such as the borrower having an adverse credit history, or being an expat or offshore borrower, or even a first time landlord.

What is the difference between regulated and unregulated?

Regulated bridging loans are regulated by the Financial Conduct Authority (FCA) and can be taken out using someone's own personal home as security. The homeowner is protected through the Mortgage Code of Conduct Rules set up by the FCA. A bridging loan that is taken out against a residential investment property, however, would be unregulated. As TAB is unregulated, we do not lend against a borrower's principal property and provide loans for investments.

How much can be borrowed?

It depends on the lender, and the type of the bridging loan required. For example, a [1st charge residential loan](#) from TAB lends from £100,000 to £15,000,000. For [development finance](#), a bridging loan would range from £250,000 to £7,500,000.

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 £15 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 enquiries@tabhq.com.

This article is for information only and does not constitute advice or a personal recommendation. TAB is not authorised by the Financial Conduct Authority and TAB loans are unregulated so will not lend on your principal property. 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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