

What happens at the end of a bridging loan? Exit strategies explained.

Education

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What is an exit strategy?

An exit strategy defines the plan that the borrower intends to use to repay their [bridging loan](#). As bridging finance is fundamentally short term, it is important that the borrower can demonstrate that they will be able to repay the funds to the lender at the time of redemption.

Why is it important?

Most lenders will not agree terms of a loan without knowing how they will get their money returned at redemption. Knowing that the borrower has a clear and realistic exit strategy can sometimes be more important in the application process than the borrower's credit history.

Bridging loans can be more expensive than longer term debt due to the interest and their short term nature. The lender is taking on a higher risk that others (such as banks) may not be willing to. Considering this, the borrower and lender need to know the exit strategy. The borrower needs to ensure the loan is repaid by the end of its term, or they risk going into default, attracting higher interest rates and late payment penalties.

What are the main ways to exit a loan?

There are two main exit strategies - the sale of the property, or refinancing the loan. Selling the property is a common and simple strategy to exit a loan, although it is not without risks. It is important to be realistic - with market fluctuations, chain breaks, buyers dropping out, or other unforeseeable circumstances, it may be that the property does not sell when intended, or for the price needed to repay the loan.

Lenders take this into account and will only lend up to a specific loan to value (LTV), allowing for any market fluctuations should the sale of the property be the chosen exit strategy. LTV is a number that lenders use to determine the risk they're taking on when lending money. It is a measure they can use to establish a relationship between the loan amount compared to 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 asset being used as the security, which is usually property, or in some cases it can be land. You can read more on LTV [here](#).

The other main exit strategy is refinancing, depending on the property this could be to a residential buy to let, or commercial mortgage, or even development finance. To accept this, the lender will most likely need proof that the application will be accepted, and this can be done by showing an agreement in principle from the new lender, or just proving that the application fits the criteria.

What are the other ways to exit a loan?

There are other options to consider when choosing an exit strategy. The borrower could intend to sell some of their other investments, such as shares, or a secondary property.

Some borrowers may be expecting incoming inheritance, although that will require providing proof to the lender, such as showing the will or probate documents and having a clear timescale as to when they will receive the funds.

One strategy that is unlikely to be accepted is future income. It is hard to provide proof that can guarantee that the borrower will actually receive the funds. This includes future income from renting a property. There is no way of knowing what might happen to a tenant, or a property, that would stop rent being paid. For example, during the height of the COVID-19 pandemic, the Coronavirus Act 2020 temporarily prevented landlords from repossessing their own properties when their business tenants failed to pay rent.

Is there an alternative to an exit?

A borrower may avoid exiting by extending the loan, although this may not be accepted by their lender. There is a strong possibility that a lender will only agree to extend if they can increase the interest rate and impose stricter terms.

How to work with your lender

It is imperative that borrowers are realistic about their exit strategy and the timescales involved. It may be pertinent to take a slightly longer bridge than is needed in order to ensure that they are able to exit successfully.

Maintaining clear and constant communication with the lender benefits them and the borrower, and keeping the working relationship in a positive place will also be beneficial in the long run.

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