

Bridging loans 101: A beginner's guide

Blog

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Introduction

Welcome to our beginner's guide to bridging loans.

In this guide, we will delve into the definition and purpose of bridging loans, explore how they can effectively fill temporary financial gaps, explain what TAB offers and emphasise the importance of understanding the basics before considering this type of loan. If you've ever found yourself in a situation where you needed quick access to funds to bridge the financial divide between selling an investment property and purchasing a new one, or any other temporary financial need, then bridging

loans might be the solution you're looking for.

So, let's get started and unravel the world of [bridging loans](#).

What are bridging loans?

They serve as short-term (up to 24 months) financing options that bridge the gap between two transactions, providing borrowers with quick access to funds. These loans are commonly used in various situations, such as when individuals are buying a new property before selling an existing one or when renovating a property for resale. Additionally, businesses often utilise bridging loans to secure capital for investment opportunities or to manage cash flow during transitional phases. Understanding the nuances of the different types of bridging loans available is essential to ensure that borrowers select the most suitable option for their circumstances.

What loans do TAB offer?

First charge bridging loan residential or commercial: A short-term loan secured against a first charge on a property. First charge means the lender has the highest priority claim on a property, giving them the first right to repayment in case of default or sale. If the loan is residential, it means the property is fit for someone to live in. Any other property is deemed commercial.

Note that TAB loans are unregulated therefore we will not lend on your principal property.

Second charge bridging loan residential or commercial: This lets you borrow money using your property's equity while keeping your existing first loan in place. It applies when you already have a mortgage and need additional funds for projects such as property improvements. The second charge

indicates the order of lenders who gets paid first should the loan not be repaid.

Land with planning loan: This is specifically designed for purchasing land that already has planning permission or has the potential for development.

Development finance loan: This is provided to support the financing of property development projects, including construction or heavy refurbishment. Development finance is typically tailored to the specific requirements of the development and funds are provided in tranches throughout the course of the scheme.

Refurbishment loan: Specifically intended to finance the renovation or refurbishment of a property, allowing borrowers to fund repairs, upgrades, or improvements to increase its value or usability.

TAB provides loans on a fixed rate and a tracker rate:

TAB Tracker loan: This is a bridging and development finance feature of an interest rate that is linked to the Bank of England (BoE) base rate plus a margin.

This means when the BoE base rate rises or falls, the TAB Tracker interest rate will also rise or fall by the same amount.

Fixed rate residential bridging loan: A residential bridging loan with a value of under £1m can have a fixed interest rate. This is usually provided for the purpose of purchasing or refinancing a residential property and ensures that the borrowers have consistent monthly payments throughout the loan term.

How do bridging loans work?

These operate on a process that enables borrowers to swiftly obtain the necessary funds. The loan journey begins with an enquiry and then provisional terms are agreed. Borrowers then proceed to the loan application, where borrowers provide details about their financial situation, the purpose of the loan, and the planned exit strategy. Lenders will then carefully underwrite and evaluate these applications, considering factors such as the borrower's credit worthiness, affordability of the loan, the property's value, and exit strategy feasibility. Once approved, borrowers receive the funds in their bank account and can address their financial needs. The borrower will either service the loan and pay interest monthly or has a retained interest loan where the interest due is added to the loan amount at the outset of the loan

It's important to note that bridging loans often come with higher interest rates compared to traditional loans, reflecting the short-term nature and the convenience they offer. As such, borrowers should carefully assess their ability to repay the loan within the agreed-upon terms.

What are the pros and cons of bridging loans?

There are several advantages that make them an attractive financing option in certain situations. One notable advantage is the speed at which bridging loans can be obtained, allowing borrowers to quickly seize opportunities or meet urgent financial needs. These loans also offer flexibility, as they can be tailored to individual circumstances, accommodating various repayment plans and exit strategies. Moreover, bridging loan providers often have a more open-minded approach compared to traditional banks, enabling borrowers to explore deals that might not be considered by traditional lenders. Another advantage is the personalised approach provided by a team of experts who communicate with borrowers and brokers throughout the loan application process to find solutions. However, it's crucial to consider the potential drawbacks of bridging loans. Higher interest rates and associated fees are common, reflecting the short-term nature of the loan and the convenience it provides. Additionally, there is a risk to the property if used as collateral, which borrowers must carefully evaluate.

Before opting for a bridging loan, it's essential to weigh the pros and cons, considering factors such as the urgency of the financial need, the ability to repay the loan within the agreed terms, and the potential risks involved.

Eligibility and application process

To be eligible for a bridging loan, certain criteria must be met. These criteria may vary between lenders, so it's advisable to research and compare different options. For a more detailed understanding of how much can be borrowed with a bridging loan, check out our informative video guide "[How much can I borrow?](#)"

When applying for a bridging loan, borrowers are typically required to provide specific documentation and information. This includes proof of income, identification documents, property valuation reports, and details about the purchase or sale of the property involved. Once the application is submitted, lenders assess the provided information, evaluate the risk, and determine loan approval. The approval process and timeframes can vary, depending on the lender and the complexity of the application, but in many cases, bridging loans can be approved within a matter of days or weeks, allowing borrowers to access the funds they need in a timely manner.

Repaying bridging loans and your exit strategy

When it comes to repaying, borrowers have several options to consider. One common approach is to repay the loan through the sale of the property that served as collateral. This option is often utilised when bridging loans are used to facilitate the purchase of a new property before the sale of an existing one. Another possibility is to refinance the bridging loan with a traditional mortgage or another type of long-term financing. It is crucial to carefully consider a viable exit strategy before taking a bridging loan, ensuring that there is a clear plan in place for repaying the loan within the

agreed-upon terms. Failing to do so can have significant consequences, as non-repayment may result in the lender taking possession of the property.

Choosing the right bridging loan provider

When it comes to choosing the right lender, there are several factors to consider to ensure you're working with a reputable company. Start by researching and comparing different lenders, paying attention to their interest rates, fees, and customer reviews. A competitive interest rate can significantly impact the overall cost of the loan.

Additionally, carefully reviewing any associated fees, such as arrangement fees or exit fees, can help you avoid unexpected expenses. Customer reviews can provide valuable insights into a lender's reliability, responsiveness, and customer service. It's also worth considering the lender's experience and track record in providing bridging loans. Seek professional advice or guidance from a financial advisor or mortgage broker as they can help you navigate the market, analyse the terms and conditions, and choose a reputable lender that suits your specific needs. Taking the time to research and consider these factors will ensure you select the right bridging loan provider for your financial requirements.

Why choose TAB?

Our CEO, Duncan Kreeger saw a need for a lender that understood the requirements of bridging loans and had the experience to transact swiftly while taking a prudent approach to risk. As a result, we designed our lending model to have the flexibility to consider the wider spectrum of a borrower's circumstances. Through varied funding sources from institutions to individuals, we can finance a diverse range of projects. Furthermore, our platform allows us to deliver quotes on bespoke finance based on the potential of each project. We pride ourselves on a quick turnaround and our responsiveness to real-time changes within the property market. Finally, TAB's foundations are built

on our key values, trust and transparency, while giving customers a personalised and efficient experience.

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.

This article is for information only and does not constitute advice or a personal recommendation. When it comes to online activity it is important to be cautious and seek 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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