

Bridging finance explained

Education

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A bridging loan can, for many, be a viable way to raise a large amount of capital in a short space of time. With bridging loan specialists offering finance from £5,000 up to £250m, it's obvious that there are a lot of considerations for anyone considering bridging finance.

Such customers tend to include home movers who find themselves stuck in a slow or non-moving chain, home buyers looking to invest in a property in which a traditional mortgage is unlikely to be approved, or developers, who can only speak with a bank in terms of projections, rather than hard and fast figures. For these people, bridging finance can prove a very realistic solution, and unlike a mortgage, it's a short-term solution.

In simplest terms, bridging loan rates are much higher than mortgages, with some [bridging finance companies](#) charging 1.50% per month, as opposed to the 1.50% per annum that some borrowers are currently repaying on their mortgages.

However, simply comparing bridging loan rates amongst various bridging finance providers is unlikely to paint the full picture. First off, a mortgage generally comes with a repayment plan of around 25 years, whereas a bridging loan is typically offered with a 12 month term, with the majority of borrowers repaying early without penalties – one of the many advantages of bridging finance which we shall look at in more detail later.

The ultimate benefit of bridging finance is speed, with lenders able to process applications in less than half the time of a mortgage – I would say 1/10th of the time! or personal loan application, and often by much larger amounts. So before we consider all of the pros and cons of bridging finance, let's start with an obvious question:

What is a bridging loan?

Many people like to think of a bridging loan as a short-term mortgage, and indeed there are some similarities in how the finance works. The first is the charge which the lender will take over the property.

Just like a mortgage, the bridging finance company will secure its loan by taking a charge over the property. Some banks do provide bridging finance, but it's not their preferred way of doing business, hence it is a good idea to compare the services of specific bridging loan specialists.

This charge means that that the property cant be sold without repaying the loan from the sale proceeds as well as the borrower cannot raise additional funds against the property without their consent and, just like a mortgage, also means that the lender can force the sale of the property if the bridging loan is not being repaid.

One key distinction about repayment here – a mortgage lender expects regular monthly payments against the mortgage. Bridging finance companies take into account the fact that the borrower is going to need time to raise the appropriate funds to repay the bridging loan – the faster it is repaid, the less interest is incurred, but monthly repayments are not always necessary.

The final similarity is that the amount of the bridging loan is dependent upon the value of the property. Naturally, if the bridging finance is for a development, then factors such as the Gross Development Value (GDV) need to be taken into consideration, and we'll touch on those calculations later on as well.

The advantages of bridging finance

A bridging loan is a useful solution where time is of the essence. If a home buyer has found a highly desirable property but still has to sell their own home first, they will find themselves in a weak negotiating position against chain free or cash buyers.

Bridging finance can be arranged in a matter of weeks as opposed to months, allowing buyers to negotiate from a position of financial strength.

Another major advantage of bridging finance is that the lender is often looking at the true value of their investment, rather than the value of the property itself. This is particularly useful for those people looking to buy a property in need of renovation, carry out the necessary repairs and restoration and then sell at a profit – often referred to as ‘flipping the property’.

- One could also leverage additional assets at the same time meaning that a charge could be taken over existing properties to increase the overall loan on the property in question and in some cases can mean borrowing 100% of the pp or more.

A traditional mortgage can only be lent against the value of the property in its current state. This means that additional finance for home improvements can mean taking out second charge loans or personal loans – at which point a borrower’s income and credit score will be investigated, and this can prove to be a major hurdle to those people looking to embark on a new business venture in property development.

Bridging Finance removes that concern, so whilst the additional bridging loan rates are going to be higher than that of a mortgage, such concerns pale into insignificance once a major project is financed and up and running.

Concerns over renovation lead neatly into the third major advantage of a bridging loan. Many properties will simply never get a mortgage against them. Many UK banks took the decision in the 1980s to not lend against properties constructed of certain materials, such as concrete or metal – used in many post-war constructions and now perfect for redevelopment.

- Add to this uninhabitable properties are usually not suitable for bank lenders criteria meaning that you could use a bridging loan to secure the purchase and once works have commenced or been completed you could refinance quickly on to more traditional and cheaper long term finance.

How much can be borrowed?

When applying for a mortgage, one’s personal income is a major consideration. If looking at a Buy to Let mortgage, the lender will look at the proposed rental income. When looking at bridging finance, neither of these are taken into account.

It's also worth noting that since the last financial downturn in the UK, no lender has returned to offering 100% -- not without some very good reason and certainly not often of the value of a property on a mortgage, whereas, with a bridging loan, this is often granted.

Ultimately, the bridging finance company are not so much lending money, as they are investing in property, and like any investor, they'll be taking a number of factors into consideration.

Developers will naturally present optimistic figures to the bridging finance company. That company will appoint a RICS qualified surveyor to take a closer look at the project. His or her valuation will be conservative, but this need not be thought of as a stumbling block.

Beyond their valuation, there are a number of fairly obvious questions that need to be answered. First and foremost are the borrowers' experience with bridging finance – have they used it before? What methods did they utilise to repay the loan and what are their sources of income? – Did they use? Or will they use? I define this as what is your exit strategy ie sale or refinance and what's the likely hood of either of these happening... Again, that last question does not mean that the lender is looking at a multiple of salary to work out just how much can be borrowed, but a stable income and a history of good financial management always goes a long way when looking to raise finance – whether it be a personal loan, mortgage, or of course, a bridging loan.

Bridging loan rates and other fees

It should come as no surprise that bridging loans do come with a higher rate of interest than a more typical mortgage. Of course, one needs to take a much shorter-term view of such things. An APR of 5% on a mortgage might sound a lot more competitive than the 10-15% one expects of a bridging loan, but it's accrued over a period of 25 years, whereas bridging finance typically lasts a maximum of 12 months.

Let's look at some simple maths. If you were to borrow £100,000 at 5% for 25 years, then you'd actually be looking at paying back in excess of £175,000, whereas with a bridging loan, that figure is closer to £115,000.

There are some additional fees to consider here too. There are legal fees, surveyor's fees and arrangement fees. However, a quality lender like TAB assures their clients of complete transparency

when it comes to their fee structure.

Regulated and unregulated bridging loans

Regulated bridging loans are secured by either first or second charges on the borrower's property. The property in question will be currently occupied by the owner or will be occupied within a given time frame.

Unregulated bridging loans are used for the purchase of a commercial property or investment – such as a new business venture. Other properties under which unregulated bridging finance can be offered include buy-to-let or business premises. – A lot of these loans are now caught by new regulation called CBTL (consumer buy to lets) all of this should be caveated everywhere stating we do not offer advice and you should always seek information to regulated advisors.

The essential difference between the two is that a regulated bridging loan comes with protection for the homeowner under the [Financial Conduct Authority](#) through the [Mortgage Code of Conduct Rules](#). This form of regulation is in place to protect borrowers from being mis-sold products and from receiving bad advice from lenders or brokers. Naturally, an unregulated bridging loan does not offer this protection, so how is it that unregulated bridging finance exists?

Well, it's simply because commercial lending is bespoke, and hence a borrower's eligibility falls to a range of different criteria. Say, for example, a borrower was looking at a buy to let property, a bridging loan would be offered based on the rental potential, along with the projections for the property's value. With a mortgage, only the borrower's income would be taken into consideration, which can be a barrier to entry into the landlord business.

Bridging finance success stories

A bridging loan can be taken out for any legal business purpose, whereas a mortgage is typically tied to the purchase of land or property. To help you to understand the array of things for which bridging finance just may be the solution, here are a few case studies.

Buying a dream home

George was not looking to move until he happened to spot a **for sale** sign outside a home that he simply could not ignore.

George's current home was not even on the market. In fact, before putting it on, he would need to spend something in the region of £20,000 on modernising his home and thus maximising his sales potential.

With several interested parties, George knew that time was against him. A conversation with a bridging loan specialist led him to make an application, and leveraging his existing home against the bridging finance, he was able to put in an offer and eventually agree upon a purchase price.

George met with a financial adviser and mortgage specialist... After that, George was able to modernise his home. Not only that, the £17,000 he'd spent on the redecoration increased the value of his home to the tune of £30,000! With his finance sorted, he was able to take out a mortgage on his new home, all of which cleared his bridging loan within five months. At a cost of?

The expanding business

Samantha was running a successful print business but was starting to become a victim of her own success. Increased demand for her services meant that she needed to invest in new industrial printing equipment, as well as premises in which to operate them.

Meeting with a bridging finance lender, an agreement was put in place and Samantha was able to meet the increased demands of her successful business. So much so, that she was able to repay her bridging loan entirely from her additional profits within just 5 months.

- She had a home worth £220,000 with a £100,000 mortgage from a high street bank. She was able to obtain a £40,000 bridging loans secured by way of a second charge on her home?
- This needs more of the story but could be a good example.
- Again met with an adviser to consider all options as she would also want to know that her home wouldn't necessarily be lost if she couldn't repay via the business... back up option to remortgage to £150,000 would be advisable.

Converting a house into flats

Jeremy owned a semi-detached house in North London. After consulting with an architect, he learned that he could create four self-contained flats, although naturally, this would incur some major building works.

Estate agents were called in to provide comparable values of flats in the area and, after consulting with a bridging finance specialist, a loan was agreed in principle.

Jeremy was able to pay off his bridging loan from the sale of three of the four flats, leaving the fourth flat for him to sell at a pure profit, which he used as a sizeable deposit on his new home and leaving Jeremy with a very low monthly mortgage payment on his dream home.

Bridging finance vs mortgages or personal loans

It's true that a bridging loan may not be the best option for you, and the team at [TAB Lending](#) are here to help you make the right decision. If however, you need to weigh up a few more options before contacting us, here are the top 5 differences between bridging finance and the most well-known alternatives:

1. Bridging loans can be arranged against all types of buildings, be it commercial or residential, and regardless of its condition. The same bridging finance can also be used for the purchase of land, whereas a mortgage can only be used for the purchase of a habitable property.
2. Bridging finance can be arranged for any legal business use. Mortgage funds are usually only made available for a limited number of reasons and business use is, more often than not, excluded from that list.
3. Bridging loans have no age restriction. The risk being taken on the part of the lender is against your property or business venture. It's becoming increasingly difficult for people in their 50s, earning an average income, to be accepted for a mortgage application, as the criteria banks use to assess people's liability belongs to an outdated system.
4. Bridging finance can be arranged for a limited company, whereas mortgages are only ever available in personal name only.

So how can we help you with your bridging finance?



By now, you will have recognised that the world of bridging finance is rather complex, and if you're buying a home, expanding a business or about to embark on a major development project, you need to know that you have the right people on hand to advise you, and that's where TAB can help.

We're here to help – not to sell, and we'll take the time to match your project with the right investors, ensuring that everyone – especially you – make the most of your bridging finance. Call us today on 020 8057 9070 or email help@tabhq.com.

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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