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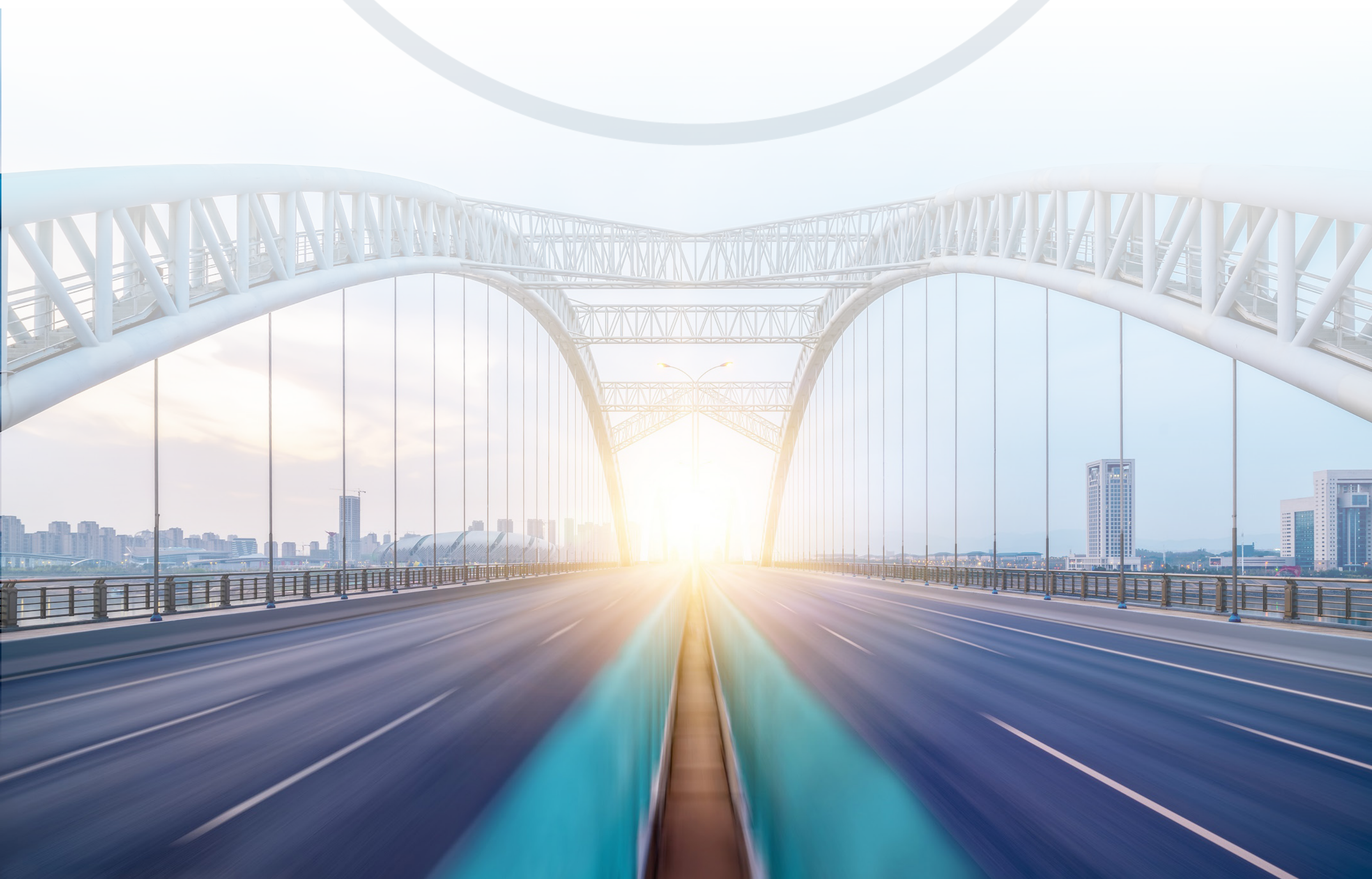
A Guide to Help You Understand Bridging Loans



What is a Bridging Loan?

A bridging loan is a short-term finance option (typically 12 months) that can be used by individuals or businesses to fill temporary gaps in funding until permanent funding becomes available.

What can a bridging loan be used for?

Bridging finance can be used in both commercial, land and residential property transactions. Home buyers, home builders, landlords, property converters, developers and investors can benefit from short-term loans in many ways. Whether buying a property, building a home, or raising funds for refurbishment projects, a bridging loan can be an option.

When would someone need a bridging loan?

For property owners/ homeowners:

- **Quickly securing a property:** People can buy a new property before selling an existing one to prevent them from missing out on a property they want to purchase.
- **Repairing a broken property chain:** The loan can prevent a homeowner from missing out on purchasing their new home if a buyer in a property chain drops out.
- **Building a house:** People wishing to build their own home.
- **Downsizing:** Whilst these property owners might not require a mortgage, they can use a bridging loan to buy before the sale of their existing property so they can move quickly and independently.
- **Converting an existing property:** For people looking

to alter an existing property to either modernise it or change its use.

- **Auction finance:** For those buying a property at auction, a bridging loan can allow them to finance the property in auction timeframes where a traditional mortgage may take too long.

For property developers/ homeowners:

- **Un-mortgageable properties:** A bridging loan can also be used by people fixing up dilapidated properties, where traditional mortgages would not be approved. For example, a property that has an Energy Performance Certificate (EPC) rating of F and below.
- **Renovation and development:** This funding option can be used by people wanting to renovate a property or those wanting to develop a piece of land into one or multiple houses.
- **Quick access to funds:** A bridging loan can be used to take advantage of market conditions and discounted investment opportunities, helping to finalise negotiations so that those opportunities are not missed.

For businesses:

- **Raising capital:** Bridging loans can be sourced against land and commercial units so that companies can raise the funds needed where other finance may not be available.
- **Tax liabilities:** Businesses can use bridging loans if they have a tax liability, and the amount cannot otherwise be accessed within the required timeframe.
- **Meet business obligations:** Borrowers looking for short-term funding to meet business obligations and payments or overcome financial difficulties can use a bridging loan as a possible option.

Types of bridging loans

There are different categories and types of bridging loans. Each loan you take out will be subject to specific conditions.

What are 'first charge' and 'second charge' bridging loans?

First charge bridging loans are those taken out on properties that do not have a loan, such as a mortgage, secured against them (meaning you have paid off/purchased 100% of your property). With this type of loan, if you fail to repay the loan your home will be repossessed to pay off the debt and the bridging loan lender will receive its repayment first.

Second charge bridging loans are those taken out against a property where there is already a secured debt, such as a mortgage. If you fail to repay the bridging loan, your property will be repossessed to pay off the debt and the bridging loan lender would take its repayment *after* your mortgage provider.

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A second charge loan usually requires the consent of the first charge lender which is normally your mortgage provider.

Equitable second charges, however, are available where the first charge lender doesn't consent to a second charge. Equitable charges have restricted rights for the lender that a second charge otherwise might not. For example, it does not give them the immediate right to sell the property in the event of a default. It is a registration of interest on their behalf on the property, typically registered at the Land Registry, but not always.

Cross charging

A cross-charge bridge enables homeowners and investors to borrow across two or more properties and their equity. For example, this means that people can take out a bridging loan across both the property they are selling as well as the property that they are buying. A standard term mortgage can then be arranged which can be used to repay the loan either partially or in full.

This can also be used where a first charge is held on one or more of the properties to increase the overall combined charge. This way the client can gain access to greater funding than a bridging loan on one property may allow.

You should seek professional advice on your bridging loan options before applying. Our consultants can advise you on lending criteria, budgeting and affordability.

Gross and net loans

Gross and net loans are terms you would typically hear more often regarding short-term finance due to the way it's serviced.

The Gross loan is the total amount of money being offered by the lender, unlike a mortgage, if you borrow 75% you will actually receive less than this which is what we refer to as the net loan. The reason for this is because the lender will deduct some fees from the gross loan, including an arrangement fee, interest, miscellaneous admin costs, as well as the potential cost of solicitors.

From here it depends on how you repay the bridge. You don't typically repay a bridging loan in monthly interest payments. Instead interest will normally be Retained or Rolled:

- **Retained:** The lender will deduct the interest for the whole term from the initial gross loan. If you repay the loan early the unused months' interest will be added back in and deducted from your final payment.

- **Rolled:** The lender will add interest each month to the Gross bridging, you do not however make monthly interest payments, but will repay the total Gross loan plus monthly interest at the end of the loan term. The total interest chargeable and the Gross loan will be subject to the lender maximum loan to value limits.

Regulated and non-regulated loans

Bridging loans are usually regulated by the Financial Conduct Authority (FCA), however this isn't always the case.

Regulated bridging loans are those where the loan is taken out as a first or second charge over a borrower's current property, one they have previously resided in or one that a relative lives or has lived in.

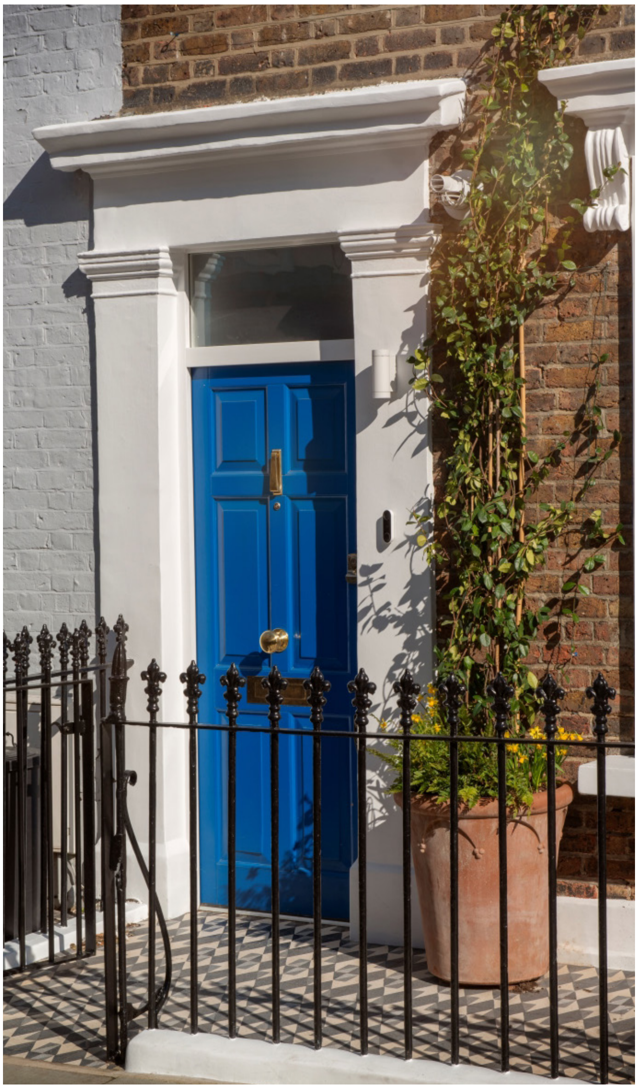
Unregulated bridging loans are usually where the loan is secured as a first or second charge against a property where neither the borrower, their partner, nor their family live and is seen purely as an investment – therefore will likely be exempt from FCA regulation.

The maximum term for a regulated loan is 12 months. For an unregulated deal there is no exact limit, but they usually extend to 24–36 months.

Fees to expect

Set-up fees for most loans can consist of the following:

- Lender arrangement fees – usually retained from the gross loan
- Legal fees
- Valuation fees
- Administration fees
- Redemption charges if you repay your loan early
- Exit fees (don't always apply)



How much can I borrow with a bridging loan?

The amount that can be borrowed depends entirely on the lender and the borrower's circumstances.

Lenders offer bridging loans from £25,000, so the amount you can borrow will depend on your current financial circumstances and your credit history. Different lenders will have different criteria around this. Lenders will allow you to borrow up to 85%* of the value of your property. They generally allow you to borrow more for a first charge bridging loan than a second charge loan.

What is the period of time you have to pay the loan back?

As part of the application process, depending on your needs and circumstances, you will agree on the term in which you will repay the bridging loan

Typically, this is anywhere from 12–36 months, however lenders can consider a shorter term and are fluid with this if the repayment/exit strategy is plausible.

Exits

There are **three main ways** you can exit, or repay, a bridging loan. It is vital to have a plan in place to repay the bridging loan before taking out the finance. Most lenders or intermediaries will insist on evidence of this to ensure you are covered.

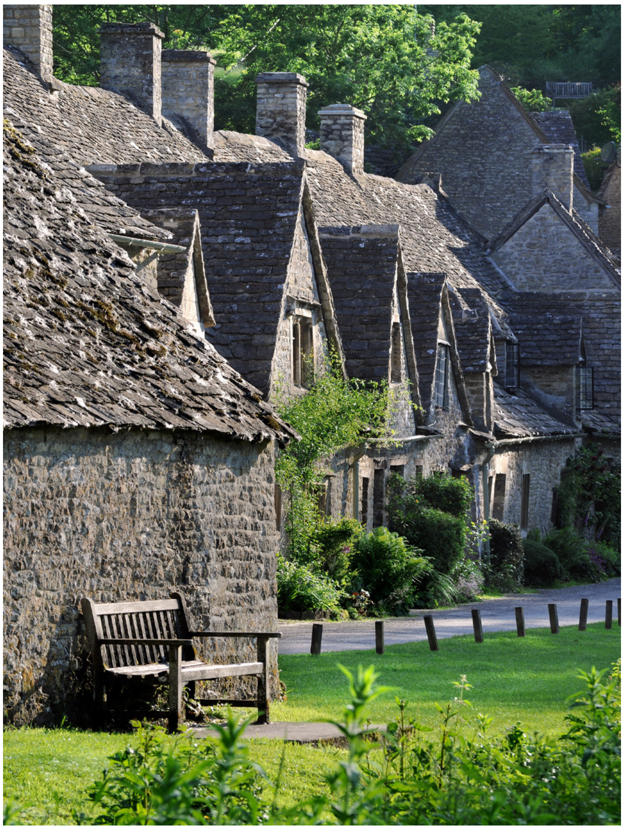
One of the most common ways is to **refinance the property(s)** by way of a remortgage. This would usually be either after an auction purchase to repay the finance as soon as possible, or once works have been done to a property to improve it to a suitable standard where it otherwise may not have been mortgageable initially.

Another common way is by repaying the loan through **sale of the property(s)**, a popular strategy for those homeowners who cross charged against their current property and onward purchase to ensure a quick sale. They then sell their original property to repay the loan.

*Gross loan, provided there will be an uplift in the property value

It is also common for investors looking to buy run-down properties, renovate them and sell them at a profit.

Re-bridging may also be an option, which is where you take out another loan after your current one has ended to repay the original lender.



This is typically a result of your repayment strategy not working, such as a property not selling, renovation works taking longer than expected which would prevent a refinance, or unfavourable market conditions that could otherwise prevent selling or refinancing. This may come at an increased cost compared to the original loan.

Our bridging specialists are on hand at every step, from initial discussions to completion. Bridging can be complex and we are here to answer any questions you may have.

Contact us: www.dynamo.co.uk 01276 601040

Any fees payable will be explained in your initial no-obligation appointment, before you choose whether to use our Mortgage Services.

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