



A Broker's Reference  
**Bridging Finance**

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The improving economic climate and growing availability of bridging loans have led to bridging finance becoming an increasingly appealing option for investors and businesses.

## The changing face of bridging loans

While bridging finance was once a niche product, it is being used in investments made across the UK with greater frequency. More borrowers are starting to recognise how they can apply short term loans, and are using the funding to benefit their property transactions and their businesses.

Popular for a number of purposes, bridging loans are being used to support commercial and residential property transactions, auction purchases and renovation and development projects. Meanwhile, businesses are using short-term loans when they require a quick cash injection.

In particular, the growth trajectory in bridging loan finance has arisen from growing confidence in the housing market. Investments in building and development initiatives and buy-to-let schemes have increased demand for bridging loans, as they give investors the opportunity to renovate and refurbish a property that could not have been financed by a standard mortgage from the outset.

## A beginner's guide to bridging finance

Despite bridging finance becoming more prevalent in recent years, with a growing number of people appreciating the flexibility that it offers, many brokers, investors and borrowers are still unfamiliar with bridging loans and how they can be used.

UK leading bridging loan packager Y3S Bridging & Commercial has put together a comprehensive beginner's guide to provide people with the information that they need to go forward and set up the loan. From bridging loan uses, time periods and loan amounts to repayments and interest rates, it provides a detailed overview of when to use bridging loans and what to expect when taking out this type of funding.

By using this beginner's guide, brokers can help their clients make educated decisions when financing an investment, property transaction or cash flow issue, understanding how and when to use bridging loans to facilitate financial situations effectively.

## What is a bridging loan?

A bridging loan is a short-term loan (12 months or less) that can be used by individuals and businesses for any purpose until permanent funding, or their next stage of financing becomes available, or they sell a property.

Fast, flexible and secured, it provides borrowers with the quick cash injection they require, which they may have been unable to secure elsewhere within a short period of time.

There are two types of bridging loans:

- **Closed bridge**  
The borrower has a set date when the loan will be repaid. For example, the borrower has already exchanged to sell a property and the completion date has been fixed. The sale of that property will repay the bridging loan.
- **Open bridge**  
The borrower sets out a proposed exit plan to repay their loan but there is no definitive date at the outset. There will be a clear cut-off point that the loan has to be repaid by.

## What are the main uses of bridging loans?

Bridging finance can be used in both commercial and residential property transactions.

Home buyers, home builders, barn converters, landlords, property developers and investors can use short-term loans. Whether buying a property, building a property or raising funds for a refurbishment project, short term lending can be a viable option.

Bridging finance can also be used by businesses in need of short-term funding. Whether they need to raise capital, meet a business obligation or settle tax liabilities, it can help a business to resolve any emergency situation or take advantage of a new opportunity, for example, buying a new piece of machinery.

## How do bridging loans work?

It's really all about speed; the main difference between a regular loan and a bridging loan is the time it takes to organise the funding. It can take months for a regular lender to complete a deal, but bridging loans can be ready in as little as 24 hours.

### The process

Whether your client opts for an open or closed bridging loan, they can expect the following:

- Y3S Bridging & Commercial receives a basic enquiry from an introducer whose client needs an unusual or specialist finance solution. We contact your client to establish the specifics.
- A suitable lender is chosen and provided with a summary of the case, reasons for wanting a bridging loan, the security available and a clear repayment strategy.
- Lender receives evidence (if applicable) of the new property purchase and proof of the price to be paid.

- › Lender issues an offer letter stating the terms of the proposed finance & what is required to be done to obtain that finance.
- › Lender instructs a valuer to provide a valuation report and sends all documents to your solicitor.
- › Solicitor explains the terms and conditions of the loan.
- › Client signs all documentation.
- › Funds are released to the solicitor for legal completion.
- › The bridging loan monies are sent to your client.
- › We pay your agreed commission within 24 hours of confirmed completion.

The process usually takes 1-4 weeks. Sometimes, this can be reduced to just a few hours, depending on the case and the set of circumstances involved, and crucially, what evidences the client has available. Similarly it could take longer in the case of a complex development loan which requires a number of conditions to be discharged by the Local Planning Authority.

Once your client receives their loan, they will be expected to repay the loan back by the end of the term. Interest payments can be made in monthly instalments, or in whole when the entire loan is repaid or retained from the loan at the commencement of the loan.

## Why are people using them?

An increasing number of individuals and businesses use bridging loans to benefit from the unique short-term financing solution and flexibility they provide. The funds allow people to take advantage of opportunities that arise, secure property deals (some properties at discounted prices) and also to resolve emergency situations, which they would have otherwise been unable to do.

As interest rates on bridging finance is higher than the rates on other loans, this financing option is only to be used in such circumstances where a short term finance solution is required (generally, 12 months or less). They are also used when there is a requirement to take high speed advantage of a financial situation e.g. buying a property at a discount.

## When would someone need a bridging loan?

Bridging loans are used for a wide variety of reasons, including:

### For homeowners and other property owners

- ✓ **Quickly securing a property**  
People can buy a new property before selling an existing one to prevent them from missing out on a particular 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 realise a dream and build their own home.
- ✓ **Downsizing**  
These property owners do not require a standard mortgages but can use a bridging loan to buy before the sale of their existing property so they can move quickly and independently.
- ✓ **Converting a barn (or other property)**  
For people wanting to live in peace and tranquility in the countryside or for developers looking to turn a profit.
- ✓ **Auction finance**  
For people buying property at auction, bridging finance can allow them to pay the required percentage needed as a deposit and then complete the transaction in the time provided for by the auction contract.
- ✓ **Temporary cash flow cover**  
Borrowers looking for a short term loan during a property transaction can use a bridging loan as a quick cash injection.



## **For property developers and investors**

- ✔ **Un-mortgageable properties**  
Bridging loans can also be used by to develop dilapidated properties, where traditional mortgages would not be approved, for example, where properties have no bathrooms, toilets or kitchens.
- ✔ **Renovation and development**  
The funding option can be used by those wanting to renovate a property, or those wanting to develop a piece of land into one house or even multiple houses.
- ✔ **Quick access to funds**  
Bridging loans 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 secured against land and property so that companies can raise the sums of money needed in a short timeframe, for example, buying stock as an alternative to asset purchase finance.
- ✔ **Tax liabilities**  
Businesses can use bridging loans if a tax demand is made, 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 short-term option.

For most individuals and businesses, bridging loans are used at times when there is a temporary cash flow issue or a tight deadline, where a quick, short term loan is required to rectify the situation or provide a viable financial solution.

## Property types that bridging loans can be secured against?

Bridging loans can be secured against different types of properties being residential, semi-commercial, commercial or land, and enabling options such as:

### Properties to buy

- › A new residential property, commercial property, investment or trading property
- › Buy-to-let purchases
- › Quick completion of a property purchase to benefit from a discounted price
- › Auction purchases with pre-auction bidding facilities agreed

### Properties to build and renovate

- › Housing developments
- › Barn conversions
- › Refurbishment projects to sell on for profit
- › Building your own home

### Properties where funds need to be raised quickly

- › Un-mortgageable properties
- › Buying before selling
- › A short term solution for a cash flow problem

## How can bridging finance be used on un-mortgageable properties?

Bridging loans can be used by investors looking to purchase properties that cannot have a normal/standard mortgage secured on them until the necessary corrective work is carried out, including:

- Properties with no bathroom
- Properties with no kitchen
- Non standard builds

The refurbishment of an un-mortgageable property will usually increase its value following the completion of the work. Bridging loans provide investors with the opportunity to buy these often derelict properties and start their renovation project prior to letting and securing long-term finance or selling for a profit.

Bridging loan providers will take into consideration an investor's current property portfolio as well as their potential purchase, making sure that they have the appropriate land or property to use as security. Investors can therefore use the equity on a current property to meet the value of the bridging loan they require to purchase to renovate another property.

Once renovation work has been carried out and the property has been made habitable, the owners can then apply for a normal/standard mortgage or sell for a profit.

## How much can be borrowed?

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

The minimum loan size will typically be £25,000 and the maximum for most lenders is £10,000,000, but this can vary from one provider to another with some lenders offering to provide loans significantly in excess of £10,000,000. Depending on the project and security, the sky really is the limit.

## Over how long can the money be repaid?

Lenders will typically expect a bridging loan to be paid back within 12 months.

As bridging loans have higher rates of interest than standard mortgages, it is practical to have a shorter time frame for borrowers to repay the loan. What's more, bridging loans are typically used to bridge a gap between finances, so the loan is often only required for a short period of time, where borrowers pay it back when their next stage of funding becomes available.

A person can normally choose to pay off a loan at any time within the 12 month time period, if they are able to gain access to the next level of financing that they require. It is important when taking out a bridging loan not to simply look at the interest rate being charged but at the overall cost including all fees.

## Bridging loan payments and interest rates

Some bridging loans are structured so that the borrower pays interest each month and repays the loan at the end of the term. This arrangement suits those who have access to a regular cash flow for the duration of the loan, and who will be able to meet the monthly interest payments. Other options are rolled up interest or retained interest.

The actual rate paid by the borrower will depend on a number of circumstances, including:

- The lender
- Whether it is an open or closed bridging loan
- The size of the loan in comparison with the property value - the loan to value (LTV)
- The type of security provided by the borrower
- The credit score of the borrower

**Typically the following will apply to bridging loans:****0.5%–1%**interest rate  
per month**1%–2%**arrangement  
fee/broker fee**70%–75%**

loan to value

The interest rates on bridging loans are typically higher than standard/normal mortgages as they often carry more risk to the lender.

**Rolled-up interest**

Borrowers can sometimes choose to have interest rolled up. This means that they do not have to pay interest every month but instead pay the rolled up interest at the end of the term.

This is suited to borrowers unable to make monthly interest payments. In these circumstances, interest is typically compounded. So, while a borrower will not pay interest monthly, the repayment at the end of the term will be larger.

**Retained interest**

To assist in meeting monthly interest payments, borrowers can sometimes choose to retain from the loan an amount representing a number of monthly interest payments. The borrower can choose the number of months (if affordability criteria can be satisfied). The retained interest is still part of the capital sum of the loan, so interest will be charged on this amount. The total loan must fit within the loan to

value. If there is any retained interest which is not utilised by the time of redemption of the loan, most lenders will normally provide a credit for this amount.

## Will my client need a solicitor?

It is recommended that borrowers get independent legal advice prior to signing any legal documents and entering into a bridging loan. The process provides protection for both the borrower and the lender.

## Conclusion

Bridging loans are becoming increasingly recognised as useful and valuable by individuals and businesses looking for quick, short-term funding solutions.

Fast and flexible, it provides people with the finances that they need in order to remedy a cash flow issue or take advantage of an opportunity, which they otherwise may have not been able to secure.

For anyone looking into obtaining a bridging loan, it is important to take the time to find a reputable lender with the following accreditations:

- › A Member of The Council of Mortgage Lenders
- › Authorised and regulated by the Financial Conduct Authority
- › Proven track record
- › Experienced in working on projects similar to yours

By choosing an experienced, trustworthy bridging loan packager, you can make sure that the funds that you need will be provided in the timescale required and in a professional manner.

**Y3S** Bridging &  
Commercial

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