Bridging Finance Guide 2023

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Introduction

Up until the late 20th century, property ownership was restricted to a minority of the British population. In 1914, only 15 per cent of the country owned their own homes, rising to 32 per cent by 1938 and then reaching 67 per cent in 1996.

The concept of property investment took even longer to evolve, with the practice only becoming widespread in the late 1990s and 21st century as financing became available and government regulations encouraged greater investment in real estate.

Today we are in the middle of a further evolution of the property market, with bridging finance playing a crucial role. Traditional banks and building societies still account for the lion's share of homeowner finance, but their appetite for lending appears stuck in an earlier generation.

When an individual buyer or investor has verifiable property assets worth over £1 million, why should they be restricted from borrowing a set multiple of their salary, which could add up to little more than £100,000?

It makes perfect sense for investors to be able to borrow against their assets, in order to spur economic growth, release properties for productive use and generate income which benefits society as a whole.

In this way, bridging finance is performing a highly constructive economic function. As we demonstrate in this guide, the range of uses for bridging finance is rapidly widening. No longer confined to property chain rescues, it helps individuals and businesses to take advantage of investment opportunities, convert commercial properties to residential use, develop land, diversify farming revenues, pay urgent bills and secure retirement homes.

We hope you find this complete guide to bridging finance helpful and insightful.

Chapter 1

What *is* bridging finance?

Put simply, bridging finance is a short-term mortgage – a loan secured against an asset (typically a property) which is repaid with fees and interest.

Mortgage vs bridging

There are several differences between mortgages and bridging finance, however. Most bridging finance deals are for 12-24 months or less, compared with up to 25 years, or even more, for a mortgage.

Interest rates for bridging finance are higher than for mortgages. Instead of 5 per cent or less for a mortgage, you can expect to pay anything between 8 per cent and 24 per cent for bridging finance.

Whereas mortgage lenders will take a close look at your income, your outgoings and your personal circumstances, bridging finance companies are generally only interested in the value of the asset that you're borrowing against.

They aren't concerned about the condition of the property, about whether it can be rented out for example. Many properties that are used to secure bridging finance will be vacant in any case, because the money is used to refurbish them. All the bridging finance company needs to know is what the property will sell for, in case they need to do this to recoup their investment.

What's the exit?

The main thing that bridging finance companies want to know is: what is the 'exit' – i.e. how will they be repaid? In almost all cases, this will be either through the sale of a property or the longer-term refinancing of the property, but it could be the sale of a business, an inheritance, the maturity of an investment or some other sum of money that will become available to a lender in due course.

Importantly, bridging finance is typically much quicker to arrange than a mortgage. Rather than taking weeks to set up a mortgage, with lenders requiring evidence of income and future prospects, bridging finance companies simply need a property valuation and can make a decision within a few days.

These loans are known as 'bridging' finance because they bridge the gap between buying a new property and selling an existing one: you then have the chance to act quickly and secure a new property, even when you don't have enough money to pay for it.

In other cases they bridge the gap between paying for refurbishments to a property and selling it, thereby making enough money to repay the bridging loan.

Legal terms

In legal terms, bridging finance companies take a 'charge' over a property used to secure a loan. This charge is placed on the Land Registry, which means that you're no longer able to sell the property, or raise any funds against it, without the approval of the bridging finance company.

It also means that, if you don't repay the amount you've borrowed, they can sell the property to get their money back.

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Expert valuation

In the same way that mortgage lenders will value your property, bridging finance companies typically also appoint a qualified RICS® certified surveyor to visit the property and draw up an expert valuation. There are some instances and lenders who, depending on the loan-to-value ratio of the finance you're seeking and the type of property you're offering as security, will offer you what's known as a desktop valuation. Desktop valuations are quicker valuations obtained from 3rd party services that provide instant online valuations.

You may already have an idea of what you think the property is worth, but beware: surveyors are notoriously conservative and are likely to come up with a lower valuation. They know that if they put too high a figure on the property, they could end up in trouble with the bridging finance company. So they play it safe.

However, if you already have a recent valuation, you may be able to use this as evidence of a ballpark figure, which may help the surveyor to reach a decision. That being said, be mindful that bridging companies tend to trust only their specific panels of valuers where the loan-to-value ratio is high.

Bridging finance can typically cover up to 75 per cent of the value of a property, depending on its type and location. In today's market, it's unlikely that a lender will offer more than 80 per cent. Those lenders offering 100 per cent bridging finance on a property will require one or more additional properties as security, using the additional equity available in those properties to get the borrower where they want to be in terms of loan amount.

Apart from residential property, bridging finance can also be taken out on commercial properties, development projects and land. If land already has planning permission, bridging finance companies will lend a higher percentage of its value than if there is no permission.

A brief history of bridging finance

Bridging finance first emerged in the UK in the 1960s as a product offered by the High Street banks and building societies, to assist home buyers who needed funding when they bought a new property before selling their existing one. It was a niche product, generally available only to valued customers of the bank or building society.

Over the next 60 years, a succession of events and government interventions combined to promote bridging and provide the ideal environment for it to thrive.

1980s

The creation of Assured Shorthold Tenancies in the 1988 Housing Act sparked the buy-to-let market and with it, demand for short-term finance so that investors could buy properties, refurbish them and let them out, or buy investment properties at auction. Bridging finance was an ideal solution for this.

2000s

Self-certification (where lenders allowed borrowers to estimate their earnings and property values) meant that mortgage lending in general rose sharply, together with residential property prices. Where borrowers found themselves over-leveraged, some turned to bridging finance during the process of selling their properties.

The Credit Crunch of 2008 gave a dramatic boost to the bridging sector. After the failure of companies including Northern Rock and RBS, traditional lenders toughened their lending criteria and became far more cautious. In response,

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bridging finance companies took up the slack and provided much-needed liquidity to the market, enabling transactions to proceed which were threatened by bankers' reluctance to lend. It also meant that properties that had fallen into disrepair could be renovated and made habitable.

2010s

In 2014, the UK government introduced tougher mortgage lending rules, phasing out self-certification, to prevent irresponsible lending. This further curtailed the traditional lenders yet offered another boost to bridging finance providers.

Later changes restricted lending to the buy-to-let market. Once again, the sector benefited as investors, builders and developers looked to bridging finance for support.

As the Association of Short-Term Lenders puts it, bridging finance offers a fast and common-sense approach to lending requirements, with 'the knowledge that each case will be treated on an individual basis and not be subject to rigid and often unattainable lending criteria.'

In other words, if you can afford it, you'll get the money.

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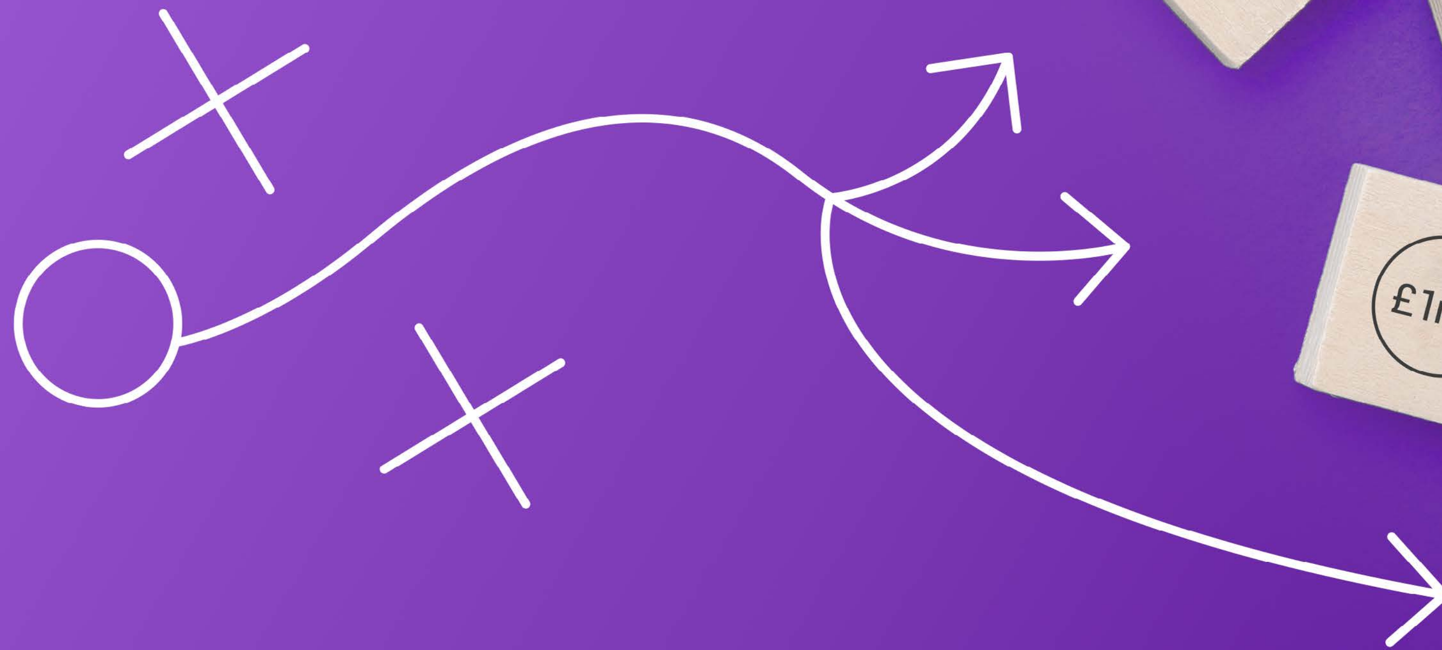
Chapter 2

Why *use* bridging finance?



As the popularity of bridging finance has increased, so too has the spread of uses that borrowers have found for it.

Here are the most common ones:

1. Maintaining a property chain

This is the most basic use of bridging finance, helping homeowners to move by smoothing out the period between buying and selling. In many cases, sellers are keen to conclude a deal quickly, so that they can get on with buying another property. So they may decide to accept an offer from a buyer who is in a position to pay quickly.

As a result, if you need to sell your property in order to afford to buy another one, you could be at a disadvantage. So bridging finance allows you to step in with a strong offer, promising to conclude a quick sale, while the sale of your existing property goes on in the background.

The great thing about using bridging finance in this situation is that, in the majority of cases, you'll only need to borrow money for a short time – say two or three months. The interest you'll have to pay on bridging finance for this period will be relatively insignificant, compared with the advantage of securing the property you wanted.

2. Buying an investment property

In the UK, hundreds of thousands of people invest in property to earn income, either as their principal job or as a side-line. Bridging finance can be extremely helpful to property investors. For example:

- To buy a property at below market value, refurbish it and sell it quickly for a profit. This is commonly known as flipping property.
- To buy a property and then make structural changes to it, such as adding a new extension, loft conversion, converting a large house into flats or an HMO, or a church or office into residential units, before selling.
- To buy short leasehold flats, then gain a new lease extension and refinance through a traditional mortgage, a buy-to-let mortgage, or to sell.
- To buy a dilapidated or otherwise 'unmortgageable' property, completing works to bring it up to a habitable standard, then to let it out or sell it. For example, if a property has no bathroom or kitchen, traditional mortgage providers are unlikely to offer funding.

Other examples of unmortgageable properties include 'non-standard' builds, such as glass, concrete, wood, metal or those with a thatched roof. These are much harder to get a mortgage for and subsequently are harder to sell. But bridging finance providers may still be able to help.

3. Buying property at auction

This is a specialist area, where bridging finance can be extremely helpful. By their nature, auctions require quick decision-making and immediate commitment of funds. Mortgage providers will not agree to extend funds for a property before

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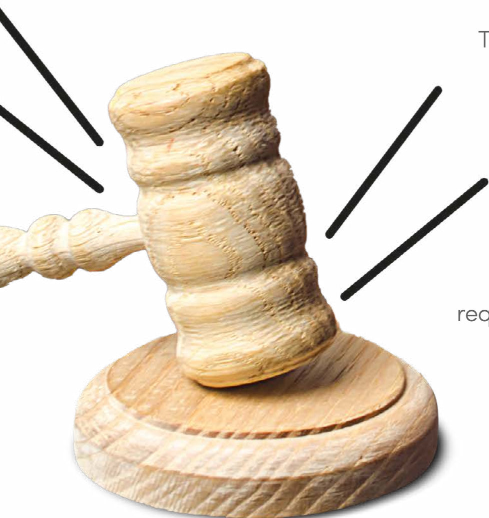
they can see any details. And since buyers at auction sales have to pay 10 per cent of the sale price on the spot, followed by the outstanding amount within 28 days, there simply isn't time to arrange a traditional mortgage.



The penalties for pulling out of an auction sale are pretty severe. You lose your 10 per cent deposit and the seller can pursue you for additional damages. So there's a high degree of motivation to arrange finance in good time.

Bridging loans are ideal to meet auction sale requirements since the majority of the sale price can safely be advanced by the bridging finance company, using the property brought at auction as collateral. Once the sale is complete, the buyer can arrange longer-term funding at their leisure or renovate the property and sell it in time to repay the bridging loan.

4. Paying an unexpected bill

From time to time, we're all faced with unexpected bills. Sometimes, these can be extremely high. For example, if a relative dies and leaves you a valuable property, you may face a large inheritance tax bill, to be paid immediately. What if the property isn't ready to sell? Bridging finance can help to cover the period between paying the tax and receiving money from selling the property.

Equally, if you have a large but unexpected income tax, corporation tax or VAT bill, bridging finance can be very useful. While you work out how to deal with this liability over the longer term – by taking out a second mortgage, perhaps, or selling an asset – you can take out bridging finance, giving you time to reach the best solution.

5. Buying assets that traditional lenders won't cover

High Street banks and building societies have quite strict lending criteria, which can put borrowers into difficult positions. If you own a property in the UK, for example, and you want to buy a holiday home overseas, banks and building societies may refuse to lend to you. A bridging loan can enable you to buy the overseas property.

Investors may want to buy shares in a business, anticipating that they will rise in value. They need access to funds quickly to take advantage of this opportunity, but traditional lenders may be reluctant to help them.

The Association of Short-Term Lenders recounts the story of an artist who needed to buy a large quantity of gold, to fulfil a sculpture commission for a wealthy Middle Eastern client. They turned to bridging finance for help.

6. For property development

If you own a small building company, you want to be able to draw down funds quickly and without complex legal arrangements. You may have a portfolio of properties with a substantial value, but that may not help you to raise funds from traditional lenders. Instead, builders in this position often form relationships with bridging finance companies to call on short-term funding quickly and flexibly.

In contrast to many forms of borrowing, bridging finance typically doesn't charge penalties for early repayment, providing further flexibility and convenience for borrowers such as property developers and builders.

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7. For business development

Business owners are often faced with decisions that require fast responses. A rival company comes up for sale – do they want to acquire it? An ideal office space becomes vacant – should they lease it? A large amount of raw material or an expensive piece of machinery becomes available at a bargain price, but only for a limited period – should they buy it? A partner announces that they wish to retire (or even more dramatically, dies) – does the other partner want to buy out their share of the company?

In each of these cases, the business owner can only act if they have the resources to do so. The company may be very profitable, but not have large amounts of capital on hand.

Bridging finance can step in to enable the business owner to take advantage of a situation with a short window of opportunity, potentially yielding rich rewards over time.

Stephen Clark at bridging finance broker **Finbri** comments:

"The great majority of our clients are investors seeking finance to acquire new properties, but the make-up of bridging demand is certainly changing and becoming more diverse. It goes to show how far the sector has matured in recent years, as the public grows more familiar and comfortable with the concept of bridging."

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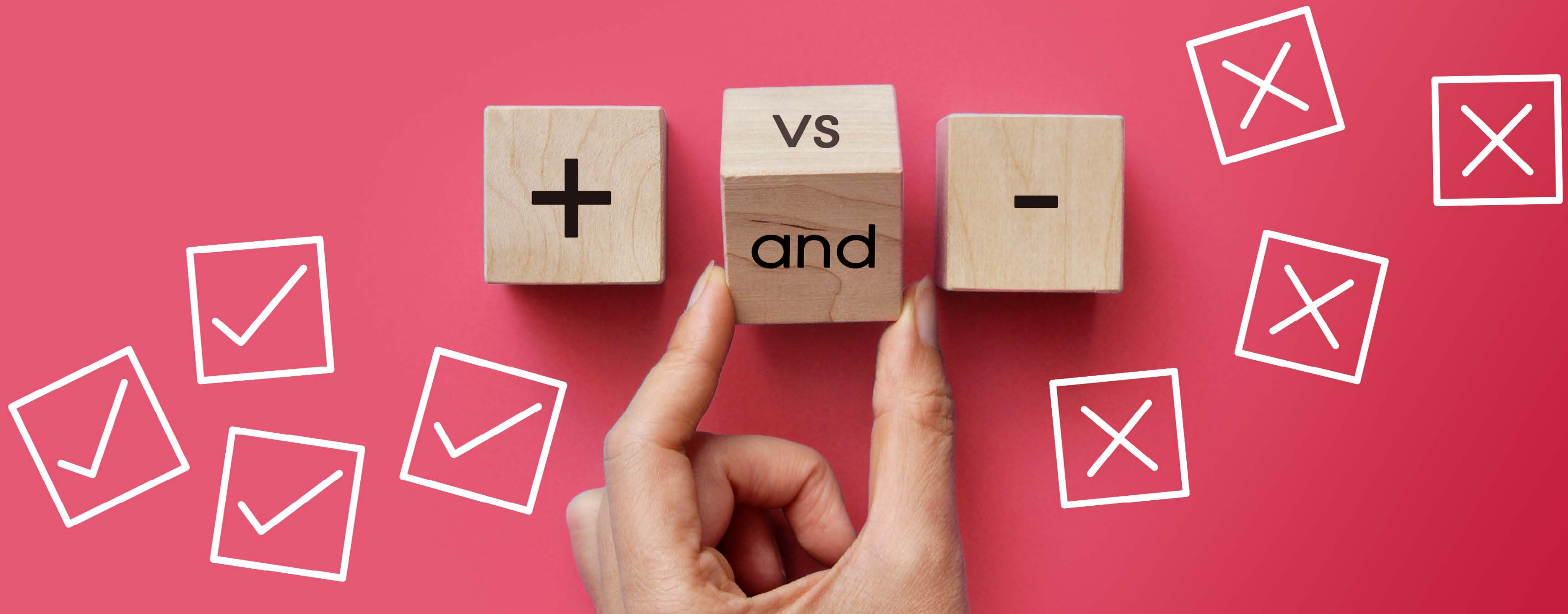
Chapter 3

Pros *and* cons of bridging finance



The dramatic increase in bridging finance over recent years has opened many investors' eyes to the benefits of the sector. Nevertheless, it's not the ideal solution for everyone.

Here is a straightforward guide to the pros and cons of bridging finance.

Advantages of bridging finance

Speed is the number one attribute for many bridging finance borrowers. They are keen to conclude a property transaction and risk losing the deal if they cannot move quickly.

Speed is often the priority, even outside of property transactions. For example, when a large and unexpected bill falls due, or an inheritance tax demand emerges following the death of a relative.

Instead of lengthy and complex negotiations with lenders to determine borrowing criteria, bridging finance companies can typically reach a decision in days, forwarding funds to meet urgent requirements.

This attribute is particularly helpful if you're looking to buy a property at auction, where funds have to be released within a few days of an agreed purchase. Banks and building societies are not generally able to agree a mortgage sufficiently quickly for auction buyers.

Further down the line, when a borrower has had a bridging finance arrangement, they may wish to extend it or amend the terms in some way. Once again, these arrangements can be made at speed, saving the borrower the time and expense of lengthy and complex discussions.

Flexibility is another attribute which helps persuade borrowers to take out bridging finance. There are typically no financial penalties for early repayment, in contrast with many products offered by traditional lenders such as High Street banks and building societies. Bridging finance deals can be amended to incorporate new assets, to be extended in scope or in time, or to change the way in which interest is calculated. This is particularly helpful for property developers, for example, who can borrow varying amounts depending on their projects' status and their assets' valuation.

The short-term nature of bridging finance means that borrowers are not saddled with multiple years of debt, weighing on them and their businesses or families. Bridging finance enables fast, convenient transactions.

Borrowers can roll up the interest they owe and repay it all at the end of the contract (typically when they have sold an asset), meaning that they do not need to make any interim payments, thereby freeing up cashflow.

Availability. In many cases, bridging finance is available for investments, developments and purchases that traditional lenders are reluctant to cover or refuse completely. This situation has grown more acute over the past 20 years, as banks and building societies (and the UK government) reacted to the excesses

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of the early 2000s and the consequent credit crunch of 2008 by restricting their activities and making their lending criteria more onerous.

Whereas in the late 20th century, borrowers could 'self-certify' their income and assets, new laws meant that lenders had to conduct more rigorous due diligence into affordability, to prevent borrowers from taking on too much debt. Separate regulations restricted access to buy-to-let mortgages.

Bridging finance companies are not limited by these restrictions, meaning that they can extend credit to borrowers irrespective of their financial situations and the purpose of their loans – presuming only that they have an asset against which to set their borrowing.

Bridging finance is also available to those known as non-status, that is where a borrower has a sparse credit history or even no credit history at all. Equally, adverse or bad credit won't prevent a borrower from obtaining bridging finance. This type of finance is also open to UK residents, ex-pats and foreign nationals.

Property condition. Banks and building societies are limited in the types and conditions of properties that they can lend against. For example, it is harder to get a mortgage for an uninhabitable dwelling, or to convert an office into apartments. Bridging finance companies have fewer limitations, making them ideal sources of funding for unconventional or challenging development projects.

Variety of providers. Since the explosion of demand for bridging finance in the 21st century, a great many new providers have emerged, creating competition in the sector which has lowered interest rates charged to borrowers and increased the number and variety of products offered. This has meant that the difference between the interest rates charged by traditional lenders and by bridging finance companies has narrowed, to the benefit of borrowers.

Size of loan. In contrast to mortgages, which are calculated according to a borrower's income and expenses, bridging finance is worked out solely in terms of asset value. Many UK property owners have properties worth over £800,000, even though they earn less than £80,000 a year. Whereas a bank might offer them a mortgage of £300,000, a bridging finance company could offer up to £600,000. And if the asset you own is worth millions of pounds, a bridging finance company could loan you a very large sum – far above anything that a traditional bank or building society could offer.

Consistency. Whereas High Street banks and building societies will typically raise their mortgage rates in response to changes in the Bank of England base rate, bridging finance companies usually agree a rate at the start of a contract and maintain this rate through the lifetime of the loan, giving the borrower more security over its total cost.

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Cons of bridging finance

High interest rates are cited as the most obvious disadvantage to bridging finance. Whereas traditional mortgage lenders will charge interest of around 5 per cent per annum, bridging lenders may charge anything from 10 to 20 per cent per annum. This higher fee reflects the additional risk that they take, in case a borrower defaults for some reason, and the fact that they do not rely upon the strength of a borrower's financial circumstances. If a bridging finance contract extends for longer than anticipated, these high interest rates can become a serious liability.

Additional fees. Besides the interest rate charged for bridging finance, borrowers typically need to pay an arrangement fee of around 2 per cent of the total, along with administration fees, processing fees, legal fees, valuation fees, broker fees and completion fees. These additional expenses need to be factored into the deal: they may end up costing a borrower much more than alternative sources of funding, making bridging finance unaffordable or onerous.

There have been recent examples of bridging finance companies who have failed to disclose payments made to brokers, in breach of regulations. You need to be confident that a bridging finance broker is working on your behalf, rather than trying to sell you a product because it will benefit them financially.

Tax implications. Buying another residential property before you've sold your existing home has several advantages, including the absence of a chain, which reduces stress and means the transaction progresses more quickly. However, if you own both properties at the same time, the new one is treated as a second home by HMRC, attracting a higher rate of Stamp Duty Land Tax (SDLT).

As long as you sell your original property within three years and apply for a rebate within 12 months of buying the new one, you can reclaim the additional tax that you've paid. But it does leave you with less cash in the short term and you need to plan for these payments in your budgeting.

Risk. Borrowers who put their property up as collateral for bridging loans stand to lose their property if they are unable to repay. This may be due to a sudden dip in the property market, which means they're unable to sell a property that they've refurbished, for example, or a sharp rise in interest rates which causes them to run out of money. Because a successful bridging finance contract depends upon speed, borrowers need to be sure that they can conclude their side of the transaction in good time. Otherwise, they may find interest payments adding up and reducing the viability of their plans.

Those who are reluctant to put their property at risk, don't require large loans, or who are dissuaded from taking out bridging finance by the high interest rates might consider alternative options, including borrowing from friends and family, taking out guarantor loans, secured loans or personal loans.

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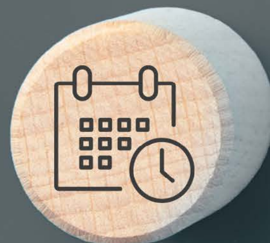
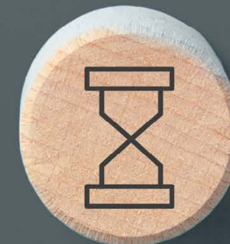
Chapter 4

Characteristics *of* bridging finance





While the basic principle of bridging finance is simple – i.e. it's a short-term loan extended against an asset – there are several variations within the sector.

Here are the main considerations to bear in mind:

Regulated or unregulated bridging loans

If you take out a loan against a residential property that you or a close family member lives in, or intends to live in, then it will be a regulated loan, overseen by the Financial Conduct Authority (FCA). This means that the lender will look at how affordable the loan is for you, based on your income streams, to ensure that you can meet repayments.

The FCA regulates this area of bridging finance and has the power to fine companies that break its rules. Borrowers can complain to the FCA if they feel they have been unfairly treated or missold a regulated bridging loan, potentially winning compensation.

The FCA regulates more than 50,000 financial services companies in the UK, protecting consumers and enhancing market integrity. To check whether a company is covered by the FCA, search its register at http://register.fca.org.uk/.

Borrowers still have to be aware that their homes may be at risk if they fail to repay their regulated bridging loan.

Bridging loans for any other kind of property, including buy-to-let residences, commercial property or development land are unregulated, so they do not come under the responsibility of the FCA.

Unregulated bridging loans typically attract a higher interest rate than regulated loans, along with stricter terms, because they pose more of a risk to the lender. Also, be aware that some lenders don't offer regulated bridging loans, so check with your lender before applying.

Open or closed bridging loans

An open bridging loan has no fixed end date, it simply means that the loan is repaid whenever money becomes available – usually from the sale of a property. Generally, borrowers take out open loans for up to a year, although they can extend for longer in some cases. These loans suit borrowers who, for example, have found a property to buy, but haven't yet sold their existing home.

Closed bridging loans have a fixed completion date, set in advance, based on prior knowledge of when funds will become available. These are typically used by borrowers who need money over a very short term, say a few weeks or a couple of months. An example where a closed loan would be suitable is if you've exchanged on a property sale and are simply waiting for completion to access funds.

Closed bridging loans generally attract lower interest rates than open loans, since they offer less flexibility. Due to the fact most closed bridging loans do not come with early repayment fees, the difference between taking out an open bridging loan Vs. a closed bridging loan can be small in reality.

First or second charge bridging loans

If you already have a mortgage on a property, you may still be able to access a bridging loan against its value, as a 'second charge' loan. This means that, in the case of default, the original mortgage lender (the 'first charge') is first in line to recoup their loan, since it is noted on the Land Registry and the owner cannot sell it without the approval of the lender.

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Second charge bridging loans are a useful, quick and flexible way of raising additional finance against a property's value without the expense, time and administration of arranging a remortgage. Borrowers can access more money than they would typically get through an unsecured loan or credit card.

Second charge bridging loans require more detailed preparation than first charge bridging, since lenders need to see evidence of the borrower's credit history and financial documentation, so they typically take longer to complete.

The advantage of a second charge bridging loan is that it does not depend on a multiple of a borrower's income, and the level of loan-to-value (LTV) relating to a property can be higher than for a typical mortgage.

Interest rate options

Similar to a traditional mortgage, borrowers can choose between fixed rate and variable rate bridging loans. Equally, fixed rate deals are likely to be a bit more expensive than variable rate deals, but they guarantee you a repayment sum over the lifetime of the loan.

Individual bridging lenders will set their interest rates according to the perceived risk of the loan, charging a higher rate to borrowers who want a higher loan-to-value deal, for example, or who have a less certain exit strategy or a lower credit rating.

In general, most bridging loan borrowers defer paying interest until the end of their term, when they repay the capital plus 'rolled up' or 'retained' interest.

'Retained' interest is where borrowers keep back from the loan a sum equal to a number of monthly interest payments, which they choose. The 'retained' interest remains part of the total amount that they've borrowed, but there could be an amount left over, once the loan has been paid back. The lender would then repay this amount.

It's important to note that when lenders talk about loan-to-value (LTV), the 'loan' includes not only the capital amount but some or all of the fees and interest added up together.

The actual interest rate charged may be anything from 0.5 per cent to 2 per cent per month, depending upon individual lenders' policies, the state of the market, the valuation of the property, the LTV of the loan and the creditworthiness of the borrower.

Fees

An arrangement fee of 2 per cent is commonly charged by bridging finance companies.

Borrowers have to cover the cost of a property survey, which will typically cost between £600 and £800. An approximate rule of thumb is a valuation costs around £100 to £200 for every £100,000 of property value.

They will also have to pay legal fees, adding up to another £1,200 to £1,500.

Further costs include a telegraphic transfer fee of around £25, an administration fee of around £300 and a broker fee which is typically 1 to 2 per cent of the loan.

Some lenders also charge an exit fee at the end of the loan, which may be 1 per cent of the total.

In conclusion

Borrowers should always weigh up the total costs and benefits of bridging finance. It is an expensive way of borrowing money, so they should be sure that the advantages of speed, flexibility and ease of access are really more important than higher interest rates and the threat of losing a property if things go wrong.

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Chapter 5

How *and* when to use bridging finance

The stereotypical idea of bridging finance as a way to tide you over between buying and selling residential property – very much the most common use of bridging loans in the late 20th century – is now well out of date.

Today, bridging finance is used more by property investors than by residential homeowners. Its use has spread far beyond its original parameters, helping people to conclude deals, pay off debts, acquire new assets and make investments previously out of their reach.

Here are 11 examples of the variety of purposes that bridging loans can be used for.

1. Completing a large development in Surrey

A couple who were renovating a large property in Surrey, with seven bedrooms and 20 acres of land, needed £1.2 million to complete the work. They needed funds quickly to pay contractors and finish the work, so they turned to bridging finance.

The maths worked like this: the property was worth £5 million in its current condition, but had a Gross Development Value of £8 million once it was renovated. To complicate matters, the owners needed to borrow money for almost two years – longer than a normal bridging loan term.

To minimise the interest they paid, the couple agreed to a staged bridging arrangement with their lender, taking out three tranches of £400,000 and paying their contractors as the bills came in, rather than taking out the full £1.2 million in one go, which would have been more expensive.

In the end their bridging loan enabled them to finish the work in good time, then sell the property to repay the loan and emerge with a healthy profit.

2. Downsizing to a retirement apartment

A couple in Birmingham found an ideal apartment for their retirement, close to their relations and all the amenities they needed, so they enquired about buying it. The trouble was, the apartment was in high demand and other buyers were able to move quickly.

To conclude their purchase, the couple took out bridging finance so that they could make an immediate offer. If they left things for another couple of weeks, they would be in danger of losing the purchase.

Their existing property was valued at £600,000 whereas this retirement apartment was on the market for £250,000. They took out a bridging loan for £200,000 over a 12-month term with interest charged at 0.5 per cent per month, enabling them to buy the apartment.

Following this purchase, the couple sold their existing property and were easily able to repay the bridging loan.

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3. Extending a fishing business in Cornwall

A family-owned fishing business in Falmouth, Cornwall, had the opportunity to buy a second-hand trawler. There was only a narrow window of opportunity to make the purchase since other buyers were interested and a financing company needed several weeks to reach a decision.

Through taking out a bridging loan, the family were able to complete the acquisition of the trawler, and then put in place longer-term financing further down the line, in order to repay the bridging loan.

The fishing business was able to expand and thrive, through taking advantage of a rare opportunity.

4. Paying for an elderly relative's nursing home fees

When an elderly woman moved into a care home, she planned to pay for the fees by selling her property. However, the fees came due within a short time, whereas the home would take some months to sell.

The woman's son arranged a bridging loan to settle the outstanding care home fees, allowing her to stay in the care home while her property could be sold in an orderly way, rather than accepting a lower price during a rushed sale.

5. Buying a retirement property in Spain

A couple living in South London in a property worth £800,000 found a villa in Spain to buy for their retirement. To secure the Spanish villa, they needed to put down a £150,000 deposit, but their London home was taking longer to sell than they expected.

To achieve the purchase, the couple took out a bridging loan of £150,000 against their London home. This enabled them to gain an Agreement in Principle to give the sellers in Spain, securing the property for them.

6. Bridging loan needed to fund divorce settlement

With a valuable home and a buy-to-let property, an owner in Leicestershire needed to raise £550,000 to make a divorce settlement. He initially struggled to find this sum, due to a below-market valuation of his properties. However, after contacting a bridging finance broker, who could introduce him to a wider selection of lenders, he was able to source a loan of £550,000 based upon a more up-to-date valuation.

Without the bridging loan, the divorce settlement could not be finalised, meaning that neither of the two parties could move on with their lives and buy other places to live. So the bridging finance proved instrumental in unlocking their future plans.

7. Funding inheritance tax following parent's death

A young woman who lived in her mother's home needed to pay inheritance tax on the property once her mother died. Yet she had no resources to pay this from her own income, and the tax had to be paid in advance of the property passing to her.

After failing to get a loan from finance brokers, due to her lack of funds and the fact that the property was not yet in her name, she turned to a bridging finance company. This proved to be a lifeline for the woman, since it allowed her to pay the inheritance tax, renovate the property in preparation for sale and gave her sufficient resources to live on. The bridging loan of £250,000 included rolled up interest, so she did not have to make monthly payments during the course of the loan.

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8. Buying an unmortgageable property

A high-income couple with their own business found a large home with great views over the sea in Sussex costing £900,000. However, it had no bathroom and was in a very poor condition – no traditional mortgage provider would touch it.

Although bridging finance companies were prepared to offer a loan of £750,000 to enable the couple to complete renovations, the buyers were concerned that the work could take longer than the 12-month period usually offered for a bridging loan.

Instead, they negotiated a 24-month loan on a low-interest rate, enabling them to plan ahead with the security that the renovations would be complete in time to refinance with a traditional mortgage.

9. Buying a property at auction

A young professional whose family owned a string of corner shops wanted to branch out into property letting. He attended some auctions and then, once he'd found a suitable property, arranged bridging finance of £250,000 to help him buy a £500,000 two-bedroomed apartment in Southend, Essex, which he planned to renovate, let out and remortgage on a buy-to-let deal.

His total fees and interest rate payments came to £12,000 over the six months between acquisition and remortgage, delivering a substantial and ongoing profit once the apartment was let out on a long-term basis.

10. Refurbishing and converting a semi-commercial property

A semi-commercial property with a florist on the ground floor and five one-bed apartments on upper floors was on sale for an 'on title' value of £1.2 million in central Manchester. The building's 'on market' value was £1.6 million, so the buyer was able to arrange bridging finance for the entire £1.2 million purchase price.

Once acquired, the buyer converted each of the one-bed apartments into two-beds, extended the lease on the florist, remortgaged to pay back the bridging loan and let out the apartments. The building now attracted an 'on market' valuation of £2.4 million.

11. Converting multiple barns on a family-owned farm

A family who owned an unencumbered farm in Wales had a cluster of barns on the edge of their land which they wanted to develop into holiday lets. As the children of the family wanted to protect the parents' home they didn't want to use that as security. Instead, they were able to separate the land title of the barns from the family home. With this in place, they were able to raise the funding they required from only using the barns as security, and as that was to be used as a business, they were able to obtain an unregulated bridging loan.

After further consideration and working out the full anticipated development costs, they decided to also split and additional 10 acres of adjacent land from the farm title deeds, which for bridging purposes could be bundled into the security to provide enough funds for the entire build. After the loan was drawn in 3 stages and the development was successfully completed, the family were able to quickly refinance just the barn development onto a buy-to-let mortgage ensuring that the interest on the bridging loan was minimised. The additional 10 acres of land were then free of any charges and, should the family choose to, it could be used again to secure finance for potential alternative incomes such as a farm shop and cafe. The family successfully diversified the farm's revenue stream.

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Chapter 6

Applying *for* bridging finance

It can be daunting to apply for a bridging loan, given the large sums of money involved and the fact that your property may be at risk.

So here's a comprehensive, straightforward guide to the whole process, from contacting a bridging loan company, filling in the application form, collecting your documentation and submitting the application.

First steps

In order to apply for a bridging loan, you'll need to have some form of asset to borrow against. Most commonly, this is a residential property.

Bridging finance companies will lend up to 75 or 80 per cent of the equity that you own in the property, so this is the first calculation to make.

For example, if you own a property valued at £600,000 and you have an outstanding mortgage of £100,000 on it, you could potentially borrow 80 per cent of £500,000 = £400,000. Remember that this is the total loan amount, which if choosing a retained or rolled up interest will be included in the calculation, so the actual net loan which is the money you'll have paid into your bank account upon taking out the loan will be less the interest.

Your exit plan

A bridging finance company will need to know what your exit plan is. Do you aim to sell your property in order to pay back the loan, or to remortgage? Or are you going to buy another property, renovate it and sell it, using the proceeds of that sale to repay the loan? Alternatively, do you have funding due to you in future, which will cover the loan, such as an inheritance, or the sale of a business?

What you'll need to tell the bridging finance company

Here is a list of the details you will have to provide:

- Your name, residential address, and how long you've lived there (or where you lived before, if less than three years).
- Your residential status, National Insurance number, employment status, job title and nature of your work, length of employment, annual income, dependent children and their ages, additional income, date of birth, nationality, marital status and contact details.
- The amount and term of loan required, whether it will be first, second or third charge on a property, any time constraints. The purpose of the borrowing and the exit plan.
- Details of the property that you're using as collateral – its address, property type (e.g. residential, commercial, semi-commercial or land), details of any rental income, the number of bedrooms, its estimated market value, any existing borrowings on the property and how much equity you hold in the property, its description, the name and contact details of any sales agent, whether it has been used as a place of residence by you or your family members, or whether you will reside there in future.
- Contact details for your legal representative such as a solicitor, and for any firm of accountants that are working for you.

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- Credit history, including whether you have a criminal record, whether any court orders have been made against you or a company you own, whether you have been declared bankrupt, been the subject of an IVA or had any arrears on a mortgage or credit arrangements. If you have borrowed significant sums before, and repaid them in good time, this is a positive sign. Make sure you mention this to the bridging finance company and provide proof.

  The higher your credit score, the more likely it is that you'll be offered a bridging loan. You can check your own credit score via companies. In fact, many bridging loan lenders will ask you to supply your credit report downloaded from Experian or Equifax. If you are concerned about your credit score, get advice on how to boost it, through adjusting your borrowings for example.

- If you have a company, you'll need to provide details of its address and contact details, registration number and date, directors' names, the business type and length of trading, and your percentage shareholding. You may need to submit company accounts to the bridging finance company.

What the bridging finance company will want to know

Once you've provided all these details, the bridging finance company will assess your creditworthiness. They may ask for the last three months of your bank statements.

Second, they will need to satisfy themselves about the value of the property that you're borrowing against. This could include a formal valuation of the property by a qualified RICS certified surveyor. If you have already had a survey done, provide this for the bridging finance company. They may accept this valuation and it could save you from paying for another. However, the specific lender you approach may require the valuation to be completed by one from their preferred panel of valuers.

Next, the bridging finance company will ask you for the purpose of the loan, whether this is to purchase a property at auction, because you're buying and selling at the same time, because you want to develop a property, or because you have to pay a large bill and need immediate finance.

The purpose of the loan can help the finance company to tailor its offer to you. For example, it will give them an idea of how long you will need to repay the loan, whether the money will be used as an investment – which could itself help with repayment – together with the level of risk that the finance company is taking.

If you're taking out a bridging loan for a business investment, the finance company may want to see a business plan to judge how viable the investment is, along with an exit plan. They want to see that your sums add up and that you will be able to afford to repay the loan when it reaches maturity.

Calculating how much to borrow

When you take out a bridging finance loan, you need to factor in all the fees, interest payments and incidental expenses that you will need to pay from the amount you borrow, on top of the cost of the asset that you're buying.

So for example, if you're buying a property for £400,000, you might need to borrow £450,000 to cover the property itself, plus the application fee, survey fee, legal and administration fees, along with the interest payments, which could be between £20,000 and £40,000 over the course of 12 months by themselves.

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It's important to go into discussions with bridging finance companies with an awareness of these figures, so that you're prepared and ready to agree a transaction.

Potential hurdles

As a basic starting point, make sure you have all the above documentation to present to the bridging finance company. This makes everyone's life easier and allows the process to go ahead more quickly and smoothly.

If you're living, or planning to live, in the property that you're buying, you'll need to take out a regulated bridging loan. This means that the process takes longer than for an unregulated loan because there are more administrative details to complete.

Market conditions can influence bridging loan decisions. For example, if interest rates rise sharply (as they have done in recent months), this may put some bridging loans out of reach for some borrowers, or at least alter the amount that they can borrow. On the other hand, rising property prices and values can give borrowers more freedom and flexibility, because they have higher levels of equity.

Although some bridging finance companies are less interested in credit rating than others, this factor can play a role in deciding whether someone is offered a loan, particularly if they do not have a track record of borrowing large amounts of money. Some lenders may insist on borrowers having a minimum credit score.

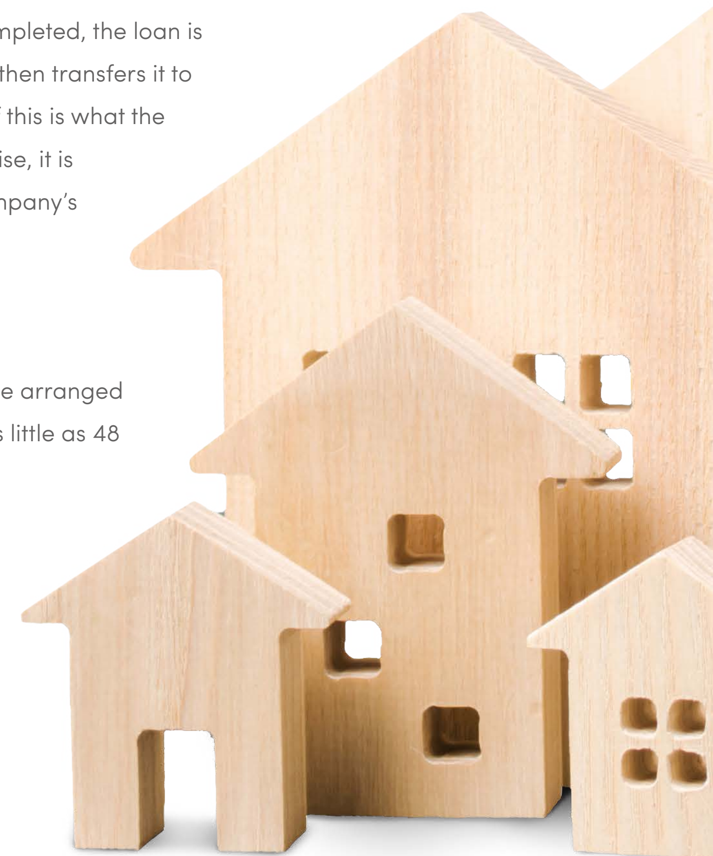
Next steps

Once a bridging finance company has performed its checks and approved all the documents you provided, it will send out a formal offer, along with a legal pack sent to your solicitor.

Although in most cases you can appoint your own solicitor, some bridging finance companies oblige you to choose from a panel of specific, authorised solicitors. If you can select your own solicitor, be sure that they are familiar with bridging finance and can meet the short deadlines that typically accompany this work.

Once all legal work has been completed, the loan is transferred to your solicitor, who then transfers it to complete a property purchase (if this is what the money is to be used for). Otherwise, it is transferred into your bank or company's accounts.

Whereas traditional mortgages take around five weeks to conclude, bridging finance can be arranged far more quickly, sometimes in as little as 48 hours.



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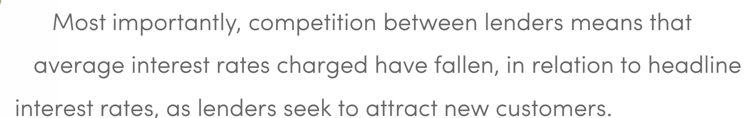
Chapter 7

Reasons *for* using a broker

As the popularity of bridging finance has spread, so has the number of finance companies offering bridging loans. This is good news for customers in many ways, since it increases the range of options, with bridging finance available for varied situations, from more types of lender, with different lengths of contract and more flexibility.



Most importantly, competition between lenders means that average interest rates charged have fallen, in relation to headline interest rates, as lenders seek to attract new customers.

On the other hand, the increased range of options makes the whole sector potentially more confusing for borrowers, especially those without a background in finance or who have little experience of dealing with finance companies.

It also makes it harder for borrowers to distinguish between reputable bridging finance companies and those who have come into the sector aiming to exploit unwary customers by over-charging or providing a sub-standard service.

Bridging finance brokers can offer a solution to this problem, along with several other advantages.

Brokers can explain the options

At first glance, bridging finance can be a complex field, where a borrower has to choose between regulated and unregulated loans, different lengths of contract, closed or open loans and various ways of treating interest payments.

Brokers can help borrowers to determine which options best suit their circumstances, explain how best to prepare an application, estimate how long the process will take and how much it will cost, and recommend the best bridging finance companies to approach for their specific requirements.

Brokers have experience and a large base of contacts

Rather than a borrower making multiple applications to bridging finance companies, without knowing in advance which is most likely to be fruitful, using a broker cuts through this random process and helps connect a borrower with one or more suitable lenders, experienced in the specific area (such as property auction finance) and with an appropriate risk appetite profile.

Some bridging finance companies are more risk-averse than others. Some will charge higher interest rates in return for taking on riskier loans. A broker can ensure a good match between a borrower's circumstances and a lender's risk appetite, meaning that the borrower gets a deal in the first instance and that they also do not overpay for their loan.

In some cases, bridging finance lenders reserve their best deals for applications made via brokers – which are unavailable to individual borrowers. This is because they prefer the security of broker-arranged deals, with the broker performing a kind of vetting service on their behalf, protecting both the lender and the borrower.

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From the lender's point of view, this saves them time and effort.

It sounds obvious to say lenders have to lend in order to make a profit, but not many borrowers realise that many lenders obtain their funds from large institutional lenders. Lenders that are borrowing their funds pay for the privilege of having access to that capital, even when it's not lent out. So the longer that capital isn't lent out to borrowers the more it costs the lender. Even lenders who aren't borrowing their funds but are deploying their own capital don't want to be sat on it. Where a lender has just had a large influx of capital for a recently repaid loan, the lender will want that put back out to the market as soon as possible. Good brokers have the inside scoop on which lenders are sitting on funds ready to deploy and so can also play this to the advantage of the borrower, ensuring very fast completions.

A good broker will be able to draw upon a wide range of bridging finance providers, from speciality lenders to family offices and private investors. Each will have different terms and be suited to certain types of lending.

Brokers speed up the process

Dealing with lawyers, surveyors and financing companies can add time and stress to a bridging loan application, when one of the major reasons for taking out a loan is speed. Because brokers are set up to complete bridging deals, they can liaise with fellow professionals, ask the right questions, make sure that you have all the right paperwork and speed up a bridging loan application.

If you need a solicitor or surveyor, they will probably be able to suggest someone who is expert in the field, once again minimising the administration period.

During the application process, brokers can advise borrowers when to submit documents, when deadlines need to be met and how to answer bridging finance companies' questions. This all saves time and reduces stress. Think of your broker as your personal assistant for getting your loan over the line in the fastest possible time.

Brokers are on your side

In many bridging loan applications, there is an element of negotiation. The lender may seek a low Loan-to-Value percentage, to protect their security. They may ask for an above-market interest rate, charge unusual fees or seek to amend a contract based on the results of a survey.

Whereas an individual borrower may be unaware of typical market rates or terms, a broker will be able to spot where a lender is proposing onerous terms and argue on your behalf. They can point out to the bridging finance company that other lenders are offering better rates, so if they want your business, they should consider matching or beating these rates.

Ideally, they will attract bids from multiple lenders and create competition between them to bring down the interest rate they offer.

Brokers understand how the market is changing

Besides a greater number of finance companies, the bridging market is changing in other ways: new asset classes and types of investment are becoming commonplace, as bridging finance gains more widespread and mainstream acceptance. Interest rates have risen sharply since mid-2022, adding an extra layer of complexity to the market, as some lenders choose to push their rates up while others seek to attract new customers by freezing their rates – making them appear relatively good value compared with High Street banking loans.

Once again, these issues are tough for individual borrowers to recognise and apply to their discussions with bridging finance companies, whereas brokers are on familiar ground.

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Brokers know what lenders will accept

This aspect is particularly important relating to exits. Many bridging finance companies are relaxed about a borrower's credit history, their employment status or their personal situation. What they are focused on is the exit. Without a legally watertight and financially compelling exit, they will be very reluctant to proceed.

Brokers are also highly attuned to this fact and can advise borrowers on how to structure and present their exit. For example, a piece of land without planning permission will attract a far lower valuation than one with planning permission. So the broker may advise the borrower to get this permission ahead of approaching a bridging finance company.

Equally, investing in a buy-to-let property requires an in-depth knowledge of the lettings market and the local area. If the borrower plans to remortgage once they have renovated the property, the bridging lender will have to decide how achievable this is.

A broker can advise the borrower so that they present a convincing case to the bridging loan provider, with all issues covered ahead of time.

This readiness not only saves the borrower time and effort, but it can also protect their credit rating: every time a lender refuses to offer a deal to a borrower, it can have a negative effect on their record, making it harder to gain credit in future.

In recent years, some bridging finance companies have become very selective, choosing to extend loans only to certain borrowers. This means the risk of being refused has risen, increasing the reasons for working with a broker.

Brokers can help with non-bridging finance

Many bridging finance brokers also deal with traditional lenders including High Street banks and building societies. This means that, where for example you need to arrange a remortgage to repay a bridging loan, they can help you apply for this through their network of contacts and experience of arranging similar loans.

These connected arrangements can yield savings, through using the same solicitor for both contracts, for example. It also reduces stress since the broker can ensure that documentation reaches the right people at the right time and that payments are made properly.

Many bridging finance brokers also arrange development finance. Check on their website to see whether this is something they offer.

A word of warning

The fees that brokers charge – whether upfront or down the line – can range from a few hundred pounds to several thousand. So it's worth comparing quotes to see how far the anticipated savings that the broker can help you achieve are offset by their fee. (Some will ask for an application fee, which is refunded upon the loan completion.)

Equally, some brokers are ill-equipped to deal with the complexities of bridging finance. Make sure to quiz brokers that you're interested in working with, to be sure they understand the subject and will be well-prepared to help and represent you.

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Questions to ask your bridging finance broker

Be prepared to ask bridging finance brokers:

How long will a loan take to arrange, whether they have arranged any recent loans similar to the one you're looking for, and what interest rate they were able to achieve. Ask about their fees, their processes and the companies they work with.

Ask whether they have access to 'whole of market', meaning speciality lenders, family offices and private investors; whether they arrange regulated or unregulated loans, whether they can offer dual representation via a firm of solicitors; whether you will need an in-person or desktop valuation.

One way to judge whether a broker will be a good partner in a bridging loan application: how responsive are they to your queries? If they respond quickly and address your query properly, this is a good sign. Communication and speed are key to a positive bridging experience.

Stephen Clark at bridging finance broker **Finbri** comments:

> "The evidence shows that bridging finance brokers save clients far more than the fees that they pay for the service. With so many providers competing for borrowers' business, there are excellent deals to be found, but your chances of finding them a hugely reduced without the help of a broker."

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Chapter 8

The **future** *of* **bridging finance**

LOADING...

In 2022, demand for bridging finance in the UK rose by almost a third compared with 2021, as the total amount in the national bridging 'loan book' reached more than £6.4 billion.

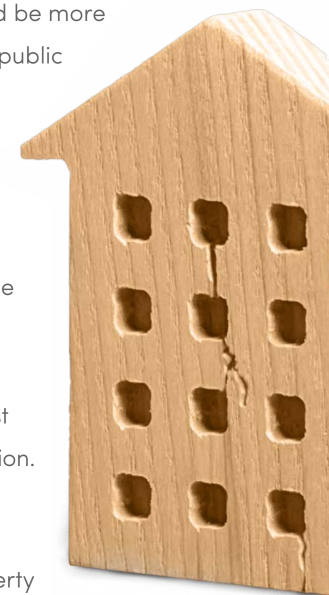
There is every sign that this growth will continue, as more individuals, investors and businesses recognise the advantages of bridging finance to help them achieve their goals, spurred in large part by the increasing availability and affordability of the sector.

Several other factors continue to drive growth in the bridging market. Competition for limited investment properties means that borrowers need to move fast to secure a deal, something they may be unable to achieve through traditional mortgages. Estate agents and sellers clearly favour cash buyers, providing them with the security of deal completion and speed of transaction.

Banking anxiety

Rumbles in the banking world – with the collapse of two American lenders and the acquisition of Credit Suisse in March – have caused renewed anxiety across the sector, causing greater risk aversion and leaving the field open for bridging finance companies to step in.

The rise in available funding, the range of products and the number of companies offering bridging finance means on one hand that customers feel greater confidence in bridging. On the other hand, newer entrants may be less experienced, may have less robust underwriting standards and could be more susceptible to fraud, potentially placing the sector at risk if there is a public perception of poor standards or misbehaviour.



Recent reports talk of 'ambulance chasing' claims companies who are scrutinising the bridging loans market, aiming to secure compensation for customers and income for themselves. For example, if a lender pays a commission to a broker, but this is not disclosed to the borrower, the entire loan could be set aside (ie rendered invalid), and the lender may have to compensate the borrower and pay damages. Bridging finance companies will need to take extra care to have robust and fair policies in place, with watertight procedures and documentation.

Lack of product

In large cities (especially London), the chronic lack of available property to rent means that developers and buy-to-let investors have a strong incentive to act quickly, to soak up this wave of demand. At the same time, the shift from office to home working, which accelerated dramatically during the pandemic and remains a demographic phenomenon, has cleared the path for widespread conversion of commercial space to residential. Many retail spaces are also vacant, as shoppers migrate online. Government policies have encouraged this shift, through more relaxed planning laws, leading to quicker decisions and more cost-effective processes for developers.

In combination, these two factors present ideal circumstances for bridging finance: there is an urgency to address an acute problem, there is a massive supply of unorthodox property in need of conversion and renovation, and equally massive

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unmet demand. Bridging finance companies have already picked up on this trend and have begun offering specialist loans in response.

A beneficial side-effect of this movement is the revival of inner-city life, as former commercial spaces are reclaimed as residential units by young professionals attracted by the access to bars, restaurants, transport links and job opportunities. In many cases, the new units are more affordable than traditional residential properties – a further bonus.

High-tech future

Machine learning, AI, open finance technology, the Internet of Things... the real-life applications of these buzzwords are transforming almost every aspect of modern life, from driverless cars to remote learning.

Is there an application for bridging finance? Apparently so, or at least there could be very soon.

Buy Now Pay Later (BNPL) is now a well-established concept. Otherwise known as 'embedded lending', US shoppers spent upwards of $50 billion through BNPL platforms in 2022 and experts predict the total will rise to $265 billion within three years. The same is true in the UK.

For now, the technology has mainly applied to mid-scale items like household furnishings, pushing up to larger purchases such as cars, but there are already examples of lenders such as Vontive (www.vontive.com) in the United States offering mortgages for investment properties, or Habito (www.habito.com), which allows customers to request a mortgage in principle via an app.

"Any lender can take advantage of embedded lending, provided they have the technology and the operating model," stated Leigh Pepper, Chief Product Officer at 10x Banking in the Bridging Loan Directory. By mid-2022, Vontive had processed more than $1 billion in loans.

So if mortgage lenders can do it, bridging finance companies could soon follow suit. Indeed, there is the potential for bridging loan companies to steal a march on mortgage providers, since their unregulated status makes them freer to offer new and untested options. "There is a vast untapped potential for bridging lenders in the world of embedded finance," argued finance commentator Hannah Duncan in the Bridging Loan Directory.

Serving the underserved

Blockchain technology could also play a part in the future of bridging finance. With its promises of increased transparency, security and efficiency in transactions, blockchain has enabled fintech companies to provide financial products to people and communities with little or no access to banking services.

"Both bridging loans and fintech can help to increase financial inclusion by providing access to financial services for individuals and businesses that may have been previously underserved by traditional financial institutions," stated the fintech website Financial IT. The site noted that if fintech and bridging finance combine constructively, it could lead to cost savings for customers through lower interest rates and fees.

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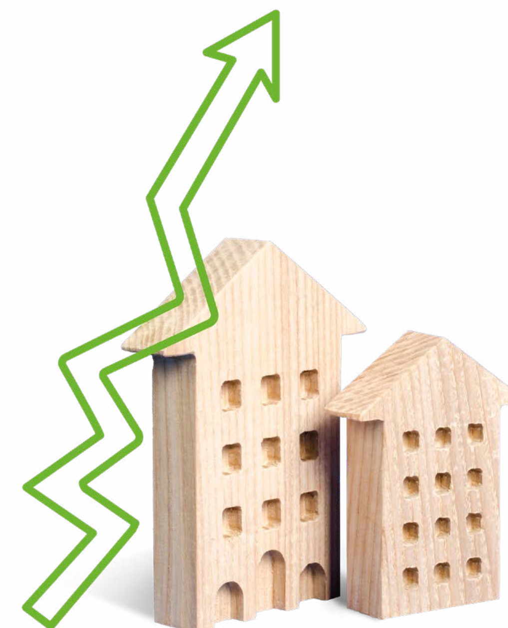
Final thoughts

In future, the equity that someone holds in their property could be treated more like a bank account, which they can dip in to at any time. Why should those hundreds of thousands (or millions) of pounds simply sit on a piece of land, when they could be put to a more constructive and profitable use?

Freeing up capital to be more productive has helped economies and societies to grow throughout history. Bridging finance already plays an important role in wealth creation. With greater coordination between financial providers, better financial education among the public, and greater liquidity in real estate investment, this role could expand dramatically in the future.

For homeowners and property investors, understanding these movements – especially the innovations in technology – is likely to mean easier, more affordable and flexible access to loan capital, to the benefit of society as a whole.



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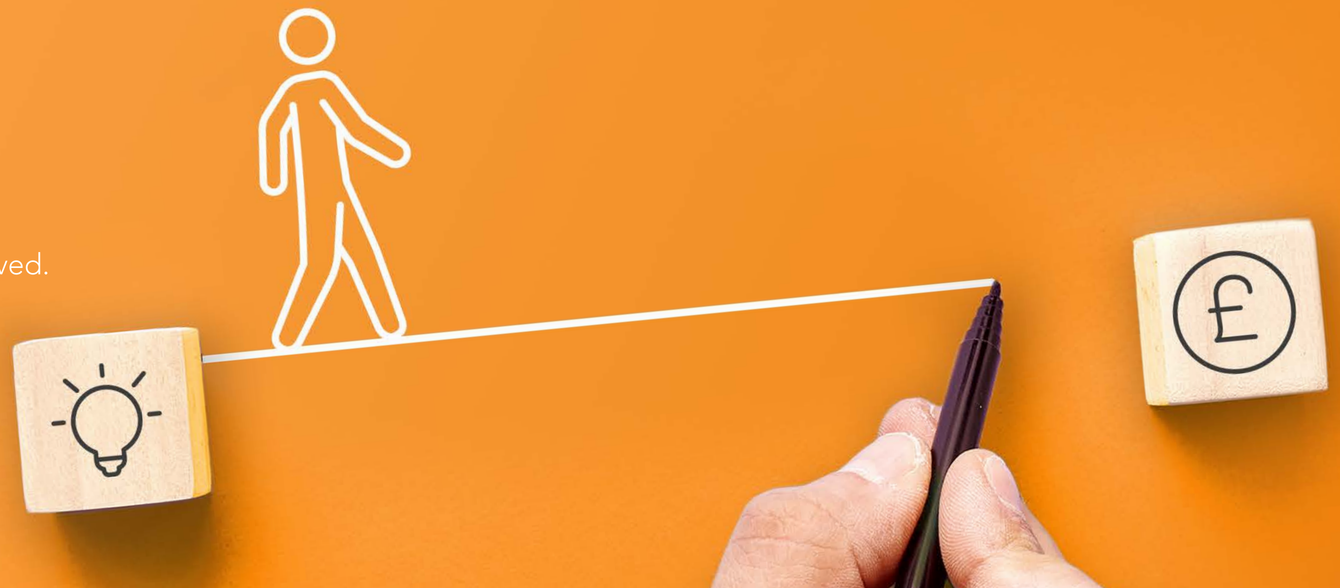

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