Can a bridging loan help me buy a house?

Blog

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A TAB bridging loan is a short-term loan that can help you make the purchase of an investment property before the planned funds of your own are available. Often, as the name suggests, it is used to bridge the gap when buying a new property before you have sold the old one.

For example, purchasing the land for where you wish to build a new house whilst you are in the process of selling another property - a land bridge loan could be a good solution.

An alternative way to buy

More and more residential investors are looking at how viable a bridging loan is as a short term solution to give them time to look for a more suitable mortgage. Below are just some of the reasons why people are choosing bridging loans to help:

- They are short term. At TAB, we offer them over a maximum two year period, upon redemption people often refinance bridging loans with longer term solutions or the sale of a property.
- They are quick. Where a mortgage can take months to approve, we have been known to complete loans quickly and efficiently and in some cases can get funds to you within 14 days.
- No fear of chain breaking. If the buyer for your original property pulls out, speak to us and with a bridge loan, we would be able to bridge the gap between purchase and sale of investment properties we can have you completing on the scheduled date.
- If you are buying a house via auction. Often you need to pay within 28 days, a bridge loan will give you the time to find an alternative longer term solution.

Loan to value

When taking a land bridge loan or another type of bridge, you will be presented with a figure the lender is able to let you borrow against the value of the land or property. This can vary between lenders but often the loan to value (LTV) ratio is a maximum of 70%. This means that the amount of cash you need to put in yourself is 30% of the value of the property. For example, if you were buying a property with a 40% deposit, that would leave60% where you would need to find a loan to cover the rest of the value. The general rule is that higher LTV can lead to higher interest rates. Likewise, a lower LTV could lead to lower interest and more options.

For more information about understanding LTV see our other post.

What type of bridging loan for buying a property?

It is easy to get confused with the variety of financial services currently available. With bridging loans below are some differences that you need to be aware of:

Open and closed bridging loans

An open bridging loan has no fixed repayment date, and a closed bridging loan is more common and is where a fixed payment term is set. Before acquiring either an open or closed bridge loan, lenders will require to see a clear exit strategy or repayment plan.

First and second charge bridging loans

First charge and second charge are legal charges that are placed against the property. Legal charges provide the lender with a degree of security in the sense that they are made against the value of the borrower's property. Should the borrower default on the loan, then those who have a legal charge will have the right to take the monies from the sale of the property.

A first charge loan is a loan on a residential or commercial property. In the case of a first charge, TAB will take precedence and first rights on the property. This means that the property could be sold by way of repossession to recover the value of the loan and any associated costs should default occur.

A second charge loan on a residential or commercial property allows you to borrow money, providing there is enough equity whilst leaving your existing first charge in place. A second charge loan applies if you already have a loan secured against a property that already has an outstanding mortgage. For property improvements such as extensions, you would likely need to take out a second charge bridging loan if you already have a mortgage on the property. The distinction lets the lender know who has priority in the repayment if you can't pay off the loan by the end of the term.

TAB is a lender that prides itself on its five key values and by working with you to help you achieve your goals we actively demonstrate them. Our offices are open Monday to Friday and you can contact us anytime via email or our enquiry form.

This article is for information only and does not constitute advice or a personal recommendation. When it comes to financing, any property used as security is at risk of repossession if you do not keep up with your payments. If you are unsure of the risks, you are advised to obtain appropriate professional advice. TAB is an unregulated lender so will not lend on your principal property.

Capital is at risk. Property values can go down as well as up. Borrowers may default and investments may not perform as expected. Interest and income are not guaranteed. Returns may vary. You should not invest more than you can afford to lose. TAB is not authorised by the Financial Conduct Authority. Investments are not regulated and you will have no access to the Financial Services Compensation Scheme (FSCS) or the Financial Ombudsman Service (FOS). Past performance and forecasts are not reliable indicators of future results and should not be relied on. Forecasts are based on TAB's own internal calculations and opinions and may change. Investments are illiquid. Once invested, you are committed for the full term. Tax treatment depends on individual circumstances and may change.

You are advised to obtain appropriate tax or investment advice where necessary. Understand more about the key risks here.

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