Why would you need a bridging loan?

Blog

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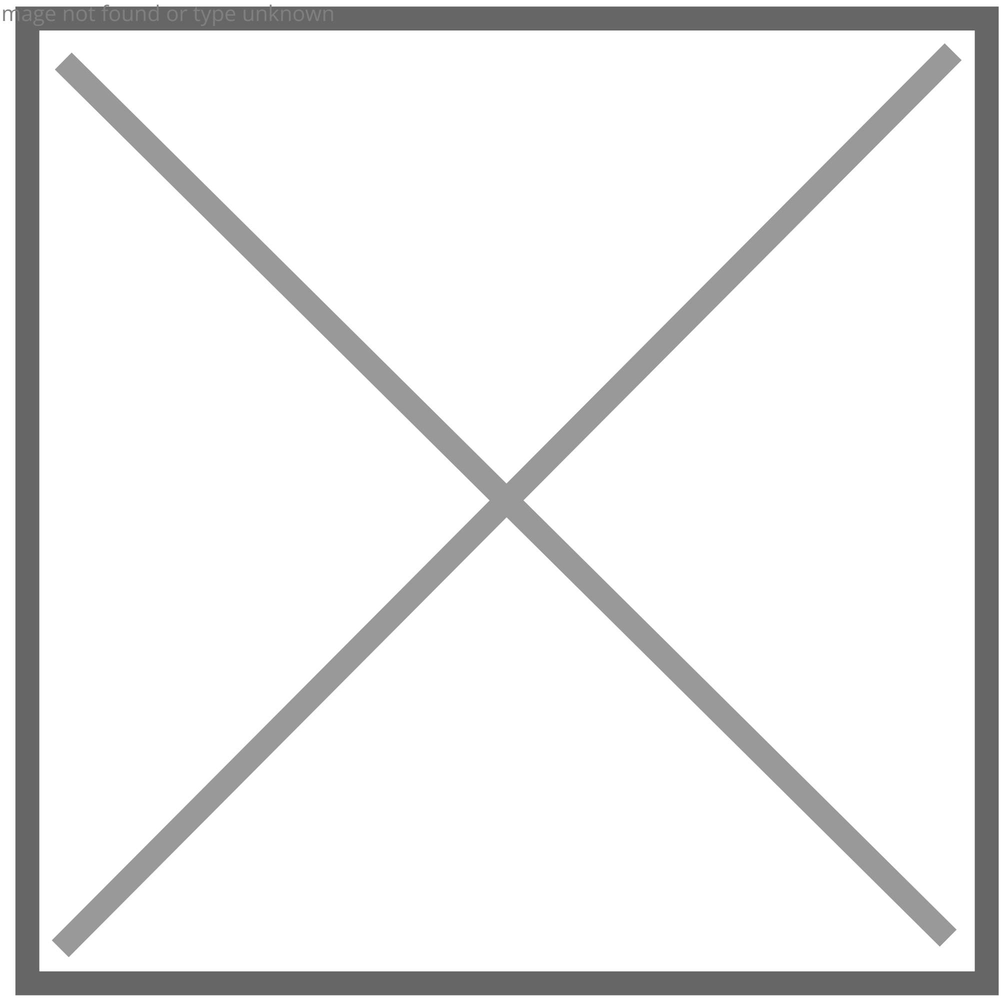

A bridging loan is a short term loan that is used to ‘bridge the gap’ when a large payment needs to be made, but sourcing the funds or long term finance for the payment may take a while or become delayed.

One of the most common uses of a bridging loan occurs when an individual wants to buy a property before they have the chance to sell another. A bridging loan will cover the cost of the new property purchase, meaning the borrower does not have to wait for the sale of the current property to have the required funds.

Other scenarios property investors might consider taking a bridging loan are:

- **Purchase a property at auction** – a bridging loan is known for its speed and can be turned around quickly, at TAB our quickest loan we were able to complete was within 48 hours! Traditional mortgages can take months to approve, and with property auctions you need to have the finance ready within 28 days.
- Often known as **capital raise**, businesses can use a bridging loan to **support short term cash flow**. This could then be used for general corporate purposes, obtain planning permission for a property, or the refurbishment of an existing property. Refurbishment bridging loans are an advanced bridging finance solution that allows borrowers to access the capital they need for their refurbishment projects quickly and without the cost of a full development loan.
- **Development finance** - development loans unlock capital to assist with ground-up developments, conversions, heavy and light refurbishments and finish and exit property projects.
- **Grow and diversify a buy to let portfolio** - a bridging loan can be used to leverage capital.
- **Taking out a second charge loan** - an investor may want to take a loan out on a property that already has a loan secured against it.
- **Finance the purchase of a vacant property** - sometimes property investors may need to secure a tenant before applying for a buy to let mortgage, a bridging loan could be used to buy the investor time.
- **Land finance with or without planning** - these are loans that are often used to purchase or refinance the land either with or without planning permission to build or develop both residential and commercial properties.
- **Loans against market value** - more traditional tick box lenders might not offer a loan on properties that are deemed un-mortgageable or inhabitable. Instead, what they do is offer a loan on a below market valuation. Bridging lenders have the flexibility and expertise to consider the full value of the property and lend against it

- **Contract reassignments** - a bridging loan can be useful in a time sensitive case to assist in the swift purchase of a property, or act as a back up for the initial purchaser who may wish to re-assign the purchase to a new purchaser at any point in time.
- **Scheduled drawdown advances** - a bridging loan can often be more flexible to accommodate payments that may need to be paid in line with a particular schedule.
- A borrower with **adverse credit history** may choose a bridging loan as the lender may take a commercially minded approach and lend on the basis of the overall risk profile of the scenario instead of the borrower's adverse credit history.
- **First time landlords** may be deemed inexperienced and a risk to traditional lenders and so a bridging loan may be another option as, again, the lender may take a commercially minded approach and lend on the basis of the overall risk profile of the scenario instead of the landlord's inexperience.
- **Expats and offshore borrowers** can use a bridging loan as a short term solution whilst they set themselves up to become eligible borrowers to larger banks and lenders.

TAB's bridging loans are unregulated, meaning that the property being used as security is a business or investment asset, it cannot be the borrower's principal property and cannot be occupied by the borrower or their immediate family.

There are pros and cons to bridging loans. The benefits include the speed at which the loan is paid, they are more accessible and flexible compared to conventional loans. However, there are some risks that need to be considered before taking out a bridging loan. For example, they have higher interest rates and there needs to be enough equity to guarantee the loan, meaning collateral is at stake. Also, there may be administration, processing, and completion fees that could make it more expensive.

TAB is a lender that prides itself on its five key values and by working with you to help you achieve your finance goals we actively demonstrate them.

If you find yourself in any of the above scenarios then a bridging loan from TAB could be the solution for you. Contact us any time via email or our enquiry form to discuss your financial options. Our office is open Monday - Friday, 9am - 6pm.

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.