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WHAT IS A BRIDGING LOAN?

QUITE SIMPLY, BRIDGING LOANS ARE AN ALTERNATIVE FORM OF FINANCE & ARE DESIGNED TO HELP PEOPLE 'BRIDGE' A FUNDING GAP.

A bridge loan is a type of short-term loan (usually up to two years), used until a person or company secures permanent financing or sells another asset. As well as helping people who are moving home to deal with a gap between the sale and completion dates in a chain, this type of loan can also benefit someone planning a quick turnaround on a renovation project, or someone buying real estate at auction.



It allows the borrower to meet current obligations by providing immediate capital, and is usually secured against some form of collateral, such as real estate or stock inventory.



Although rates on a bridging loan are typically higher than in traditional finance, a bridging loan is far more flexible in terms of repayment with options including delaying repayment for the full term available.



WHY USE A BRIDGING LOAN?

Bridging lenders can move far more quickly than a bank when a borrower needs funds to buy a property, needing only a few days to complete a deal and send the funds required. In comparison, a mortgage can take 30-45 days on average to be approved, sometimes longer. This potentially places a great deal of stress on auction buyers in particular, who are generally required to pay in full for any purchases within 28 days.



Another potential benefit is the flexibility afforded when repaying the loan – most companies offer “serviced” repayments where the borrower pays monthly interest, “rolled up” repayments where repayments are delayed until the end of the term, or a mixture of both.

Repayment of the loan is called an “exit plan”.



HOW DO THEY WORK?

When you apply for a bridging loan, the lender adds a charge to the property you are using as security. There are two types of charge, first and second.



FIRST CHARGE LOANS

are where the loan is the first, or only borrowing secured against your property. Mortgages are an example of first charge loans.



SECOND CHARGE LOANS

are where there is already a loan or mortgage listed against the property, so you add a second. For example, if a property was repossessed and sold to pay off any outstanding finance, a first charge loan would have to be repaid before a second charge loan could be paid back.



SECOND CHARGE LENDERS

normally need the first charge lender's permission before they can be added. There is currently no limit to the number of charges that can be listed on a property.

The process will vary from lender to lender, however here at MFS we follow six simple steps...



1. LOAN ENQUIRY RECEIVED

There is continuous transparency and communication throughout, from enquiry to completion for the client.



2. INDICATIVE TERMS

We give indicative terms to the client that clearly states the details of the loan.



3. DIP ISSUED

This is where we do an in-depth analysis of the client and their requirements and provide a decision in principle.



4. VALUATION INSTRUCTED

Valuers are instructed to visit the property or properties in question, this is what allows us to confirm the terms detailed on the DIP.



5. LAWYERS ISSUE LEGAL PAPERWORK

The lawyers will do all the necessary paperwork for both us and the client to progress the case.



6. LOAN DRAWN DOWN

We are able to provide funds in as little as three days dependent on the circumstances.



WHAT CAN YOU USE A BRIDGING LOAN FOR?

The majority of bridging loans are used for residential or commercial purposes. Here are a few situations that may require the use of a bridging loan:

- Buying a property at auction
- Purchasing a building whilst selling another
- Completing on a new property before another has sold
- Adding to a property portfolio
- Buying a run-down property for renovation with a quick sale in mind
- Moving office / factory / warehouse

NB – it is important to have a clear exit strategy in mind or already in place.



REFURBISHMENTS



AUCTION



INVESTMENTS



HOW ARE RATES AND TERMS DECIDED?

Lenders do not usually have set guidelines for debt-to-income ratios for bridge loans, and the approach to underwriting is generally guided by “does it make sense?”.

The amount someone can borrow, and the terms of the loan vary on a case by case basis. However, there are three main factors typically taken into consideration:

1. THE MARKET VALUE OF THE ASSET

Lenders will apply a loan-to-value (LTV) rate that varies dependent on the size of the loan. At MFS we offer up to 75% LTV, meaning a borrower could have up to 75% of their asset worth loaned to them.

2. WHAT THE BRIDGING LOAN WILL BE USED FOR

Whether it is a residential or buy-to-let investment, a commercial property purchase, or refurbishment project, the loan use will be taken into consideration when applying a rate.

3. WHETHER IT IS A FIRST OR SECOND CHARGE LOAN

This refers to the order of priority for two different sources of debt. If someone has a first loan on a property, and then secures a second, they will always make repayments to the first debt before the second.



WHAT SHOULD YOU CONSIDER?



THE EXIT PLAN

Borrowers will need to have an exit strategy, to show how they will pay off the loan. Common ways of paying off a loan include selling an existing property or asset or long-term refinancing with a mainstream lender.

MANAGEMENT OF THE LOAN

Borrowers need to ensure they are prepared for any unforeseen costs, especially those that could arise during refurbishment projects - badly distributed funds could lead to cash flow problems later in the project.

CHOOSING THE CORRECT LENDER

There are hundreds of lenders in the bridging market, so choosing the right one for your project can be difficult. It's important to focus on a lender with a strong track record, high quality service and transparent fee and rate structures.



WHY CHOOSE MFS?



We have a 13-year track record in quality bridging loans, with highly experienced underwriting staff who view each case on its merit. We can turn enquiries into bridging loans within three to ten days, with no hidden charges.

We also thrive on complex – so if you have special circumstances or think your requirement may be outside of the norm, please [contact us](#) to discuss it.

