wp|property|finance

Finance Made Easy

What is Bridging Finance?

Bridging finance is a short-term loan typically secured against a property. It is normally used when a traditional finance agreement such as a mortgage is unsuitable, whether this is because the property does not meet the traditional requirements of mortgage lenders, the borrower does not meet normal mortgage criteria or because the finance is only required for a short term, say between 1 month and 5 years.

What does “security” property mean?

Usually this would be the term used by the lenders for whatever land or property the lender secures the Bridging Loan charge against. If you failed to meet your commitments and couldn’t repay the loan, then the lender could repossess the property which could be sold to recover their funds.

What is meant by additional security?

This would refer to additional property that is offered to a lender to increase the value of the security offered which would lower the total loan to value (LTV) of a loan. This could lead to favourable lending terms being offered to the borrower.

Can bridging loans be arranged on property with an existing mortgage?

The bridging loan facilities can be secured as first or second charges, and in some circumstances even third charges if there is still sufficient equity in the property. The charge referring to the legal charge over the property held by the lender.

Can bridging loans be obtained with poor credit i.e. county court judgments, arrears and defaults?

Yes, there are lenders that provide bridging finance for clients who have County Court Judgements, defaults, arrears and also discharged bankruptcies.

What does retained interest mean?

With retained interest calculations, a lender will calculate the estimated interest charges for the term of the loan, add this to the loan advance and then retain the funds to service the interest payments every month until the loan is repaid or the term comes to an end.

What does rolled interest mean?

Interest roll-up is when a lender agrees that the repayment of capital and interest can be deferred for a period, usually until the end of the loan term. In this period, you won't make any repayments at all. Interest will continue to be added to the loan monthly, weekly or possibly daily. In this situation you should make sure you understand the impact of compound interest, namely you will be paying interest on the interest each time a new interest amount is added.

What is compound interest?

Compound interest is interest charged on interest. As interest is added to the principle loan amount, the following month, interest is calculated on the new loan amount which includes the original principle loan amount plus the rolled-up interest from the previous month.

What does serviced interest mean?

This means that the interest charged on a loan is being repaid monthly rather than being added to the loan. Given the nature of this type of arrangement, lenders will normally want to see evidence that the borrow can afford to make the repayments every month in much the same way as a traditional mortgage.

What does exit strategy mean?

This refers to a borrower's plan to repay their loan. Typically, this will be by refinancing on to a longer-term loan agreement, selling the security property (ies) or using other personal funds when they become available such as inheritance. In most cases a lender will want evidence of a borrower's proposed exit strategy prior to release of funds.

What does light refurbishment mean?

Different lenders have different definitions of what constitutes a light refurbishment but broadly speaking, this applies to a project that does not require any structural change to the property or the requirement for planning permission

What does heavy refurbishment mean?

Unlike light refurbishment, a heavy refurbishment will normally involve structural changes to a property and in most cases, planning permission (unless covered under permitted development rights (PDRs) will be required.

What are PDRs?

PDRs (permitted development rights) allow changes to a building without the need to apply for planning permission. They derive from a general planning permission granted by Parliament, rather than from permission granted by the local planning authority (LPA). An example of PDRs is the conversion of a commercial property into a residential property.

What is an article 4 direction?

Article 4 Directions are the legal means by which a local authority can require property owners to seek permission to convert a single dwelling house into a small HMO**.** When an Article 4 Direction affects a dwelling house, the document explains what work will require planning permission that would not normally need it. There is also an Article 4 Direction that affects whether a planning application is needed for Houses in Multiple Occupation (HMO's) across the whole town.

Are bridging loans regulated or unregulated?

They can be both, Regulated loans are those on a property you are living in or are going to live in. Unregulated are useful for corporate entities, properties you aren't going to live in, or individuals with unique circumstances that don't fall into other categories.

What is a non-regulated loan?

This would normally apply to an investment property which you have never lived in and have no intention of doing so. This can be a residential property or commercial and, in some cases land. This type of loan can be arranged and will normally have a maximum term of 24 months but in some cases, up to 60 months. With an unregulated purchase for investment purposes e.g. buy-to-let mortgage (also known as an investment property loan), the landlord has the intent of renting it out to private tenants and not family members.

Do I need experience?

If you are using bridging finance to refurbish or develop a property, most lenders would want to know you have experience in this area. If you are undertaking your first light refurb and you have the skills to complete the work or you are using experienced tradesmen to complete or assist with the project, this should be acceptable. For heavy refurb, if you don't have the necessary experience, you will need to provide the details of the tradesmen who would be completing the work.

How long does it take to arrange a bridging loan?

A bridging loan could take hours, weeks or months to arrange. Usually, you would expect these loans to complete quickly, lenders and brokers who work in this space understand this and usually respond accordingly however, everyone involved has to be aware of the time constraints, the buyers, sellers and of course the buyers solicitors who must be suitably qualified and experienced to handle the timescale demands of this type of lending

Commercial Mortgages/loans

What is a commercial mortgage/loan?

A commercial mortgage/loan is secured on a commercial property, such as an office building, shops, industrial units, warehouse, or apartment complex. The proceeds from a commercial mortgage are typically used to acquire, refinance, or redevelop commercial property.

How long does it take to arrange a commercial mortgage?

Once you have submitted your enquiry and any required documents, indicative terms are normally issued within 24 hours. The loan could normally complete within 6 to 8 weeks. These timescales are subject to, the complexity of the case, The valuation requirements, the legal requirements and the current status within the market due to circumstances beyond our control.

What is the difference between owner occupied (trading) and an investment commercial mortgage?

An owner-occupier mortgage would be applied for to be used as a trading premises for your business. A commercial investment mortgage for property you're planning to let out.

How much deposit is required for a commercial mortgage?

You will typical require a 25% to 40% deposit, which varies based on the lenders calculation of the risks involved. Commercial investments are usually on the higher end of this scale. Owner-occupied commercial mortgages are seen as less risky for the lender and can be done with a 20%-25% deposit.

What term can a commercial mortgage be taken over?

Commercial mortgages can be arranged over a term of up to 25 years but typically, most lenders prefer to set a shorter term of 10 – 15 years.

Do I need experience?

Most lenders will want investment borrowers to have experience in letting commercial property but there are some that will take a view on first time commercial landlords if they have other letting experience. In some cases, such as purchasing a Care Home for example, the lender will want to understand what specific care home experience the borrow has. Owner occupiers will normally need to provide evidence that they have been trading for a minimum period along with accounts that demonstrate their ability to service the proposed mortgage.