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# The Landlord's Guide to Bridging & Development Finance

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# What is a bridging loan?

A bridging loan is a short-term, interest-only loan secured against property.

They are usually available up to 75% of the property's value.

The loans can be taken for a term of up to 24 months and are available on residential, development and commercial properties (and sometimes on land).

Bridging loans come with fixed or variable interest rates. These rates are stated on a monthly rather than an annual basis and the borrower can repay the interest in different ways. They could choose to pay monthly, on a set date or at the end of their term when they repay the sum borrowed as well as the interest incurred.

Bridging loans usually carry different fees in addition to the interest, which can significantly increase the overall cost to borrowers. It's important that you are aware of  these fees.

## Open and closed bridging loans

Bridging loans can be defined as open or closed. An open bridge has no agreed repayment date (although it does have a maximum term), while a closed bridge has a fixed repayment date.

Closed bridging loans are likely to be suitable for buyers whose property chain has broken down. Perhaps their buyers have pulled out while they are in the process of buying their new home. They can use the loan to bridge the gap between the purchase and the sale of their existing property.

Open bridging loans tend to be used by landlords or developers who can't guarantee timings (although they'll still need to provide a schedule of works) and who need the loan for a longer period.

## Regulated and non-regulated bridging loans

Some bridging loans fall under statutory regulation and others don't. If the borrower is buying a property to live in (or for a family member to live in) this would usually be a regulated bridging loan.

If the borrower is purchasing or refinancing a property as an investment, not as their home, the loan is usually unregulated.

Bridging loans are available on a first or second charge basis, although regulated bridging loans are always a first charge loan.

Roma Finance offers non-regulated short term finance only.

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# Who can take out a bridging loan?

Borrowers are homeowners or homebuyers, landlords or property developers. What they have in common is a need for fast, short-term finance secured against a property.

A bridging loan gives them breathing space until they sell a property, access other funds or find alternative, long-term finance.

A bridging loan could be suitable for the following customers:

- They are buying a new home but haven't sold their existing home
- Older homeowners who want to downsize now before selling their existing property
- A quick completion is needed on the property they are buying
- They are buying an unmortgageable property to renovate before letting out or selling
- They need to raise funds for business purposes or to pay a tax bill
- They are buying a property at auction
- They are getting divorced and need to quickly release equity from their home for the settlement.

## How do they work?

If you believe you need finance, you can source a product via some specialist sourcing systems, through a broker or by contacting a bridging lender you trust.

They will help you through the process and tell you what information and documentation they need before they can make a decision. This normally only takes a matter of days.

Like a mortgage, the offer will be made subject to valuation, which comes next.

As with any secured finance there's also a legal process to go through, but it can be expedited depending on the circumstances.

## How much can customers borrow?

Bridging loans are available from £25,000 all the way up to £50,000,000 plus.

The amount that someone can borrow is assessed depending on why they need the loan. If they need to bridge a gap between a purchase and sale of existing property, the lender will take into account the value of the existing property, any equity or additional savings, and the likelihood they will be able to refinance onto a mortgage. This is to help them work out what they can lend.

If the plan is to buy a property and then develop it to sell at a profit, the lender will work out how much they can borrow based of the current value, the cost of works and the value once it has been improved.

They will want to know how the borrower plans to repay their loan – their exit strategy. This is usually by selling a property, refinancing onto a long-term mortgage or paying off the loan with proceeds from another source.

At Roma, bridging loans are available from £75,000 to £3,000,000.

# Benefits & Drawbacks

## Key benefits of a bridging loan:

- Bridging loans are quick to arrange – you can get an agreement within a day or two and the funds within a fortnight
- Borrowers can access large sums secured against property
- Investors can take advantage of time-sensitive buying opportunities
- Flexible lending to non-standard borrowers is available
- They are available on non-standard properties

## Drawbacks of a bridging loan:

- Interest rates can be high if you borrow over a long time
- The fees can be significant. Expect an arrangement fee, valuation fee, exit fee, legal fees and early repayment charges in some cases, as well as other fees depending on the lender.
- Alternative finance options such as a let to buy mortgage or a second charge mortgage may be more suitable in some circumstances. Anyone needing advice should contact a Mortgage Adviser.
- The borrower's home is at risk if they don't keep up the agreed repayments on a bridging loan.
- If borrowing from an unregulated lender, the borrower will not have access to compensation or redress from the Financial Ombudsman in the way they would with a regulated finance product. Choosing the right lender is essential.

## Finding the right bridging loan

There are many lenders offering bridging finance, from large banks to smaller specialist lenders. Some offer only regulated loans, some only unregulated and others offer both.

Rate is obviously a key factor for any loan but remember that bridging finance tends to be taken over the short term, so other features may be just as important.

Fees can make a huge difference to the overall cost of the loan so make sure you are clear on exactly what you will pay upfront, on redemption and if you can't pay.

If the customer has unusual circumstances or a credit blip, they will still be able to get a bridging loan, but their choice of lender will be more limited.

If speed is important to the deal, look for lenders that are operating under fast turnaround times.

Consider the service the lender will provide to you. Will they meet them to discuss their project? Can you get a named point of contact?

Bridging lenders often operate directly through brokers as well via specialist distributors who will help you to find the right deal from across a range of lenders. They are experts in bridging finance and have close relationships with lenders, so can be a good option for peace of mind.

Bridging finance is a flexible, fast and easy way to access secured borrowing and the market is hugely competitive. That's good for brokers and for customers.

There's also a lot of work being done by lenders and trade associations to ensure the sector is transparent, professional and fair.

# What is a development loan?

Development finance is a short-term bridging loan that provides funds to cover the purchasing of land and/or building the property.

Full planning permission is required in order for funds to be released for the build. If it doesn't have planning permission, it may be better to take out a bridging loan first, although there are a few providers which will lend on land without planning. You can then swap to a development loan once planning is granted.

These loans are usually available up to 70% of the property's GDV (Gross Development Value).

Typically, when taking out a development loan, the property is built to sell or kept as a long-term investment for rental income and/or capital gain.

- Residential investment property
- Semi-commercial & commercial
- Non-working farms and pubs
- Non-standard construction
- HMOs
- Ex local authority
- Land with planning

## Development Definitions

**Refurbishment** - Where you are looking to make significant changes to an existing property, whether the use or the size.

- Light refurbishment - Cost of works are 20%-50% of CMV
- Medium refurbishment - Cost of works are 50%-100% of CMV
- Heavy refurbishment - Cost of works are over 100% of CMV

**Ground up development** - This involves looking to purchase land, or demolish an existing property/building and to rebuild on top. Development finance can fund residential units or a mix of residential and commercial units.

**Commercial to residential** - Converting existing commercial premises into residential e.g. HMOs

## Additional costs

With development finance, a development appraisal is required. The appraisal is conducted by a valuer to quantify the cost of works alongside the current and end value of the property.

If the development is classed as 'medium' or 'heavy' or has a loan of over £500,000, a quantity surveyor may need to get involved. They will carry out a cost appraisal, at an additional cost, where they will only comment on the adequacy of the build costs compared to industry averages. Interim reports will then be made during the development when drawdowns are required.

If the development is classed 'light' or 'medium/heavy' but has a loan of under £500,000, drawdowns can be done. There is also an additional fee for this.

## Security & Exit

There is flexibility when it comes to security. If you do not have a cash contribution available, there is the option of offering a charge over another property in addition to the development site.

When you own a property that is unencumbered (**first charge bridging**), or has a low current mortgage value (**second charge bridging**), you can use equity in that property to raise funds against a new purchase.

Once the development is complete, the property can be sold on for a profit, and the original funds will be repaid subject to interest and fees.

A developer exit is available once the site becomes wind and watertight.

There are other options available:

- The funds can be refinanced via a developer exit product. This enables you to clear the original loan but the term starts again.
- If the term doesn't need extending, your interest on the existing loan can be reduced once the property is wind and watertight. This is subject to a charge to vary the term loans.

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Let's talk. Call **0161 817 7481**, to see how we could support you and your business, alternatively you can **email us**

**lnpg@romafinance.co.uk.**

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