

Hilltop Property

What is...



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Bridging Finance?

What is ... Bridging Finance?

Bridging finance is a short-term loan that is typically used to bridge the gap between buying a new property and selling an existing property.

This type of finance is often used by homebuyers who need quick access to funds to complete a property purchase before selling their current property.

Bridging finance is usually secured against the existing property being sold or the new property being purchased, and comes with higher interest rates and fees compared to traditional mortgage loans. It is considered a short-term solution, with most bridging loans being repaid within 6-12 months..

Example

Scenario:

John buys a vacant land with a dilapidated house for £500,000 to develop into a modern home.

Bridging Loan:

John gets a bridging loan from a lender for £400,000 (80% of the purchase price). The loan has:

- Interest rate: 1.5% per month (18% per annum)
- Repayment term: 12 months

How it works:

The lender gives John £400,000 and he uses it to buy the land and property. After 12 months, John can refinance the loan with a traditional mortgage or sell the property to repay the bridging loan.

Benefits:

The bridging loan allows John to:

- Buy the land and property quickly
- Start developing immediately
- Take advantage of market opportunities that require fast action

However, bridging loans have higher interest rates and fees compared to traditional mortgages. John needs to have a solid plan for repaying the loan before committing to this type of financing.

Advantages

- **Flexibility:** can be used for both residential and commercial property purchases, and can be used to purchase properties that are in a state of disrepair.
- **No long-term commitment:** are typically short-term, allowing you to avoid long-term debt
- **Quick exit options:** can be repaid quickly, allowing you to exit the loan when you sell the property or refinance with a traditional mortgage.

Disadvantages

- **Higher interest rates:** typically have higher interest rates than traditional mortgages.
- **Fees:** Bridging lenders often charge fees for their services, which can add up quickly.
- **Limited availability:** Not all properties or borrowers are eligible for bridging finance, and some lenders may have specific requirements or restrictions.