

# 'UK Bridging Finance Guide'

Save money on your Bridging Finance

by



**Feel FREE to give or share this Guide with ANYONE!**

You may not, however, claim ownership of it, sell it, or modify it in ANY way. If you give it away, you give it away without making any changes to it.

**Limits of Liability / Disclaimer of Warranty:**

The authors and publisher of this book and the accompanying materials have used their best efforts in preparing this program. The authors and publisher make no representation or warranties with respect to the accuracy, applicability, fitness, or completeness of the contents of this program. They disclaim any warranties (expressed or implied), merchantability, or fitness for any particular purpose. The authors and publisher shall in no event be held liable for any loss or other damages, including but not limited to special, incidental, consequential, or other damages. As always, the advice of a competent legal, tax, accounting or other professional should be sought. The authors and publisher do not warrant the performance, effectiveness or applicability of any sites listed in this book. All links are for information purposes only and are not warranted for content, accuracy or any other implied or explicit purpose. This manual contains material protected under International Copyright Laws and Treaties. Any unauthorized reprint or use of this material is prohibited.

### Introduction

Welcome to the 'UK Bridging Finance Guide' from Commercial Lifeline.

This guide is designed provide an overview of exactly what bridging finance is, what is involved in finding and selecting bridging finance and how to avoid paying over the odds.

Along the way we briefly touch on where to get bridging finance, bridging finance types, Lender requirements and using a commercial mortgage broker.

We hope this guide proves useful in giving you a better understanding of bridging finance and ultimately we hope it saves you money.

Two other guides are also available from Commercial Lifeline, 'A Commercial Mortgage Guide' & 'A Guide to Buy to Let Mortgages'.

To download these guides free please visit [www.commercial-lifeline.co.uk](http://www.commercial-lifeline.co.uk).

### A Guide to UK Bridging Finance

#### What is a Bridging Finance Loan?

This is a short term loan which is usually used by purchasers of commercial property who need funds, for a limited period of time, until they sell their existing property. For instance: If you were buying a new warehouse and you wanted to close on the purchase before you sold your current warehouse, you could use bridging finance to come up with the money that you needed for the new commercial mortgage's down payment.

Typically the money that you receive from bridging finance is treated as an interest-only loan in that you pay the interest each month, until the old property is sold, and then you pay off the loan's principle in one lump sum. The terms for bridging finance typically run one year or less, but they can be negotiated for a longer period of time.

Bridging finance is a relatively easy way to raise short term capital because the lender simply takes an interest in your current property and keeps that interest until they are paid back.

#### Repayment Liability

Your obligation to repay a bridging finance loan is no different than it is with a conventional commercial mortgage. Sole traders and partners are personally responsible for the debt and the lender can seize your personal assets, in addition to foreclosing on the mortgaged commercial property, to satisfy the loan if you fall into arrears. Even if you operate a limited-liability partnership, or a limited company, you may still be required to sign documents which will make you and your partners or company directors personally liable as well.

#### Sources of Bridging Finance

Any commercial lender is authorized to make bridging finance loans. In most cases the lender who is providing the funding for the new property is also the lender who provides the bridging finance. This makes it especially easy to qualify for the bridge loan since the lender has already done his due diligence on you.

#### Lending Criteria

If you are receiving your bridging finance from the same lender who is providing your new commercial mortgage then you will most likely be faced with a lot less paperwork. You will

probably only have to fill out a short application, and sign the necessary closing papers, since you have already qualified with the lender for the new mortgage.

However, if you are seeking bridging finance money from a different lender then you will be required to go through the entire approval process. This includes a credit investigation on the business as well as all of the signers whether they be owners, partners, or directors of the company.

Just like with a standard commercial mortgage, the bridging finance provider needs to be assured that they will be paid back and that they won't have to end up foreclosing on the mortgaged property. Lenders do not want to be in the property owning business.

Interest rates are usually higher with bridging finance because the bank only has a shorter time in which to earn profits. In many cases you will pay an up front interest pre-payment that will cover the interest for some set period of time. After that time passes you will continue to make interest payments until the time comes in which you are able to pay off the entire principle in one balloon payment. Should the bridging loan term expire before you end up selling the old property then most lenders will convert the loan to a standard variable interest mortgage without charging you any penalty. But, this is not always the case, so be sure to check up front before you sign.

Just like with a commercial mortgage, the interest rate for your bridging financing will be based in part upon the prevailing rates plus a markup which represents the lender's profit. You can always negotiate that markup and, in the worst case, simply find another lender if you don't get the deal that you want.

### **Documentation and Due Diligence**

If you are using a new lender to secure your bridging finance then be prepared to go through the same documentation and due diligence process that you would go through with a conventional commercial mortgage. This means that you will be asked to provide personal and business financial information including:

The last three years of audited financial statements including a P&L statement (profit and loss), balance sheet and a cash flow forecast.

Your accountant's certificate stating that your financials are correct and in order.

Your business tax returns for three years.

Possibly your personal tax returns, and those of your partners (if any) for the same period of time.

The lender may also want to see additional personal information such as the personal financial statements of everyone who will be signing the bridging financing contract. Many lenders want to be satisfied that you have sufficient personal net worth to be able to step up and repay the loan if the business fails to. You may be asked to have your personal financials certified by your accountant.

### **Interest Rate Schemes**

Bridging financing loans typically have less flexible interest rate schemes than conventional commercial mortgages have. You will usually only be offered a Standard Variable Rate (SVR) loan where the interest rate is determined by taking the Bank of England Base Rate (BOEBR), or the London Inter Bank Offer Rate (LIBOR), and adding the lender's profit markup to that rate.

Sometimes you may be able to obtain a Capped Interest Rate loan which is similar to a variable interest rate except that rate will not rise above a pre-determined maximum for some specified time period. If the loan is still active at the end of that period then it usually converts to a SVR loan at the prevailing rates plus markup.

### **Bridging Financing Costs**

The costs associated with bridging financing are usually the same, or nearly so, as those of a conventional commercial mortgage. You should always try to negotiate these fees so you don't end up spending any more money than you have to.

Here are the most common fees that you will encounter:

#### **Arrangement fee**

If you used a third party to arrange the loan, including certain brokers who receive their fees from the borrower instead of the lender, then these fees will be paid out of your loan proceeds at closing. Some brokers receive their fees from the lender so check to see who is obligated when you are first choosing a broker.

#### **Lender's completion fee**

This fee goes directly to the lender at closing and is calculated as a percentage of the bridging finance amount. This fee is supposed to cover the miscellaneous costs which were incurred by the lender and not charged separately.

#### **Good-faith deposit**

This is an amount that you pay to guarantee the lender that you will not back out of the loan after you are approved. If you end up closing then the fee is credited to your costs or refunded. If you change your mind and back out then the lender keeps the fees to offset their expenses to the extent possible.

#### **Survey fee**

This is paid to the company which is hired to provide the appraisal on the property which will be covered by the bridging financing.

#### **Legal fees**

This fee goes to pay all of the solicitors who are used by the lender and, in some cases, includes the fees to your own solicitors.

#### **Summary**

Obtaining bridging financing is relatively easy, compared with obtaining a conventional commercial mortgage; especially if you are using the same lender for both loans. You should be careful, however, to make sure that there is a provision to convert the bridge loan to a more conventional type of loan in the event that your old property does not sell as quickly as you had hoped it would. Otherwise you could end up in a cash crunch if you are forced to come up with the balloon payment and you don't have the funds on hand.

The easiest way to find the best deal on commercial bridging financing is to engage a commercial loan broker who knows their way around this type of loan.