

'US Bridging Finance Guide'

Save money on your Bridging Finance

by



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Introduction

Welcome to the 'US 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.

We also have the 'US Commercial Mortgage Guide' available that may be of interest to you.

To download these guides free please visit www.commercial-lifeline.co.uk.

A Guide to US Bridging Finance

Bridging finance is a short-term loan that is used as a way to provide funding for the purchase of a new property while the borrower awaits the sale of an existing property. Unless all the stars are in perfect alignment, it's tricky to coordinate the sale of one property and the purchase of another property so that the transactions occur simultaneously.

Bridging finance or a "bridge loan" as it is more commonly referred to, makes such transactions possible. They keep the borrower from ending up in a dire financial situation as can happen when forced to pay two mortgages at the same time. Bridge loans can be used either for business or for personal reasons.

Primarily short term in nature, the process for obtaining a bridge loan is similar to that of most types of loans. Most importantly, it's advisable to work with a lender that has experience with this type of loan. Also, since the need for a bridge loan often arises with little advance notice, being pre-approved for such a loan is a good idea.

If you have an established relationship with a lending institution, start the bridge loan process there. If they do not feel qualified to assist with this type of loan, they likely will be able to refer another lender. Using the same lender that helped prepare a previous loan or that is preparing a loan for the new property will facilitate and shorten the loan processing cycle. If you do use different lenders for the different loans you need, you will have to go through multiple application processes and you will generate a lot of paperwork!

Bridge Loan Basics

Bridge loans typically are structured as interest only loans meaning that the borrower pays only the interest on the loan each month. The borrower continues with this repayment plan until the property the loan is being used for is sold. When the sale finally does occur, the proceeds of that sale are used to repay the principal. The principal payment typically is in the form of a one-time, lump-sum payment.

The lender does not need to worry too much about default because the borrower is required to put up collateral to secure the loan. This can be in the form of another piece of property, business machinery or inventory on hand. But rest assured the lender will still thoroughly review the credit

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history of the applicant, the business and any partners or others with an ownership interest to assess the level of risk it is undertaking.

The interest rate assigned to the bridge loan is based on several factors: the anticipated risk associated with the bridge loan, the prevailing interest rates and a premium added by the lender. Since bridge loans are short-term, generally not longer than two years, the lender has only a short time to make money on the deal. The profit is derived from the interest rate.

Expect to pay a higher rate of interest for a bridge loan. And remember, the monthly payments on a bridge loan generally will be for interest only. Expect to pay off the bridge loan in full, usually as a one time balloon payment, as soon as the property is sold.

In the event that the property is not sold before the bridge loan matures, it can usually be converted to a conventional loan without paying a penalty. But it's always a good idea to double check this before assuming.

The Paper Chase

A substantial amount of documentation will be required to process a bridge loan. Again, if the applicant uses the same lender as is being used for the purchase of the new property, the amount of paperwork will be minimized because it's already been reviewed.

Besides the credit part of the process, details of the applicant's business will be required. The previous three years' worth of balance sheets, profit and loss statements, cash flow and tax returns for the business are required. These documents must also be certified by an accountant prior to submission. Additional personal financial information may be required as well.

Bridge Loan Fees

There is an assortment of fees associated with the processing of the bridge loan. There may or may not be a broker's fee, depending on whether or not the applicant used a broker. If a broker was used, the broker's fee will be paid by either the lender or the borrower, depending on what was negotiated initially.

There likely will be an appraisal fee, because the lender needs to ensure that the business as well as the property upon which it sits is in good physical condition.

The lender might require a good faith deposit which generally will be credited at the time of closing. A lot of work goes into processing a bridge loan and the lender needs to cover its processing costs should the loan not materialize for whatever reason. Again, if all goes according to schedule, the costs of this fee will be credited at closing.

There will be several miscellaneous fees including legal fees, notary fees, courier fees, recording fees, administrative fees, credit report fees and others. Some of these fees can be negotiated away while others cannot.

The bridge loan process is similar to that which is required for most other loan approvals. It's basically just a different type of loan used to fulfill a specific, short-term need. Being approved for a bridge loan entails many of the steps an applicant would take when applying for a conventional loan. Before approving a loan, and in this case, a short-term loan, the lender needs to ensure that it is taking a reasonable risk and that it will make a profit on the deal. The only way to be certain is to go through the steps of the loan approval process.

Using the same lender for all your loan needs, whether a bridge loan, a conventional loan, or any other type of loan, reduces the amount of time and paperwork involved in the approval process. That lender will have much of the required documentation already on file.

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When you find yourself juggling two property transactions – the sale of one and the purchase of another – get yourself a bridge loan and help bridge the financial gap.