A bridging loan is a type of short-term business finance designed to get you from A to B by bridging a gap in your finances for a short to medium time period. It's commonly used by property buyers and investors, but is suitable for a range of other business purposes too. When you take out **bridging finance**, the lender will usually have a first or second legal charge against your property.

How does a bridging loan work?

A **bridge loan** allows you to purchase a property before you've sold your existing one. It's also commonly used by those who want to fund renovations or a new build project before they can secure a traditional mortgage. Due to the short-term nature of the finance, it's sometimes referred to as a 'swing loan', 'gap financing' or 'interim financing'.

If you're planning to use a bridge loan to purchase a new home while you wait for your current one to sell, you'll use equity in your current home as a downpayment on the purchase of the new one. Bridging finance can be used by businesses as well as individuals. There are many products out there that are tailored for different purposes.

Bridging finance is available from specialist brokers who have access to non bank lenders and institutional institutions that lend money in specialist areas. Bridging can be obtained for United Kingdom, Spain, France, Germany, Austria and many other parts of Europe. The United States is also very acquainted to the aspects of bridging finance on commercial and residential properties.

A business bridging loan is a type of **commercial finance** that, again, enables you to access funding over a short period of time. Providing you meet the eligibility criteria and have an exit strategy in place that is deemed valid by the lender, you can use the funds for a variety of things. Some businesses use bridging finance to get a working capital boost or to cover short-term cash flow challenges, for example.

It’s important to bear in mind that although bridge loans provide immediate cash flow, interest rates are higher and you’ll typically have to offer collateral.

Businesses may also seek out a bridge loan when awaiting long-term funding. For instance, a startup engaging in an equity financing round that is set to close in six months may take out a bridge loan in order to cover costs until it is received. These costs could include things like payroll, inventory, rent, utilities and other expenses.

Property bridging loan

A property **bridging loan** can come in useful if you want to buy a property but are waiting for the sale of an existing one to complete. In this instance, you can use the loan to cover the period between buying the new property and selling the old one.

Property bridging loans can also be used if you’re in a chain and part of it falls through. In the majority of instances, you can add the loan’s monthly interest payments to the balance of the loan and pay it off at the end of the term.

As long as you have equity, a way of paying off the loan and sufficient security, it’s possible to be eligible for a property bridging loan even if you have a poor credit rating.

You can also use a property bridging loan to:

- Buy a property at auction
- Pay for renovations
- Buy land for development — to cover the costs between purchasing and building on the land
- Buy an uninhabitable property — to cover the costs until you can get a mortgage (which may be once the works are complete)

One of the benefits of bridging loans for property is that the application process is usually quick: you can apply online and receive an approval within 24 hours. If your application is approved, you can expect to receive the funds within two weeks. The lender will need to value your property and carry out the necessary checks first.

Sometimes you can pay the lender to have your application processed faster.

Open vs closed bridge loans

Bridging loans fall into two categories: open and closed. A closed bridge loan has a fixed repayment date. If you’re purchasing a property and are waiting for the sale to complete, you’ll usually receive this type of loan. Open bridging loans have no fixed repayment date, however you’ll typically have to pay it off within 12 months.

Bridging loans explained — FAQs

What is a bridge loan?

Bridging finance is usually a type of short-term business loan. It’s best thought of as a temporary loan which gets you from A to B, until you can either clear the loan in full or secure a more permanent form of finance. That’s where the “bridge” idea comes in — finance to get you from one step to another.

How do bridging loans compare to regular term loans?

In theory, they differ because they are for a specific short term purpose, whereas term loans often have more general commercial purposes. In reality, the speed of getting the cash in your account is the main difference. It can take weeks for some lenders to complete a term loan, but a bridging loan can be ready in 24–48 hours.

What can I use bridging finance for?

Lenders that offer bridging loans usually do so for the purchase and renovation of property — it's a form of property **development finance**. They can be both commercial and residential, and the works can be ground-up property developments or just adding a bathroom to a flat.

You can use bridging finance for other short term commercial purposes, as long as you have a clear exit in place — although it depends what appetite the lender has for your plans.

What is a bridge loan 'exit'?

Exits are what lenders say when they mean how you are going to either clear the bridging loan in full (with the interest costs) or move it onto a more permanent type of finance, like a term mortgage.

You might hear us speak of closed bridging loans and open bridging loans. Closed loans are a line of credit with a fixed exit date in place.

For example, the sale of the property to pay back the loan is already in place at the time of taking the loan. Open loans are given without the exit yet fixed, so you are given "up to" a certain period. We can discuss your options here and which lenders best fit your needs.

What bridging loan interest rates like?

Given the specialist nature of the loan — i.e. it's for a specific short term purpose — the interest rates can be higher than traditional term loans.

You can sometimes choose to have the interest payments ‘rolled up’, which means you pay a lump sum at the end of the agreed term. This can make it a useful finance type for those without the required funding at the early stages of receiving the loan.

How can I use a bridging loans to finance developments?

Bridging loans form the crux of what property developers use to fund their projects. Let’s say a developer owns a site and has planning permission from the council to build a small apartment block. A good solution for this property development, to spread the costs for the company, may be to get a bridging loan for 3–6 months, which gives them the funds to complete the work.

This loan is fully paid off after the period either by the sale of the apartment block or individual apartments, or by moving the bridging loan onto a longer term finance product like a commercial mortgage.

Bridging loans can sometimes be used in other commercial areas where a short term temporary loan may be required. This is providing there is a clear ‘exit’ from the loan.

Non Standard Bridging Loans

Subprime bridging loans exist usually, because clients find themselves unable to qualify for mainstream or bridging finance and would like to purchase a property. This can be due to any number of reasons:

Having complicated income streams.
Poor credit history, or no previous credit rating.
Non-standard personal circumstances or borrowing requirements.

Non standard bridging finance really should be your last place for finance having exhausted family, friends, mortgage lenders and second charge lenders because the interest rates and fees are high and not repaying the money borrowed when the Bridge comes to an end can have very severe consequences.

Private bridging lenders charge Interest rates range from circa 0.5 to 1.5% per month — yes per month — with lenders charging fee between 1–3% of the amount you borrow.

A typical Bridge term from **private lenders** would be 6 or 12 months with interest rolled up i.e. added to the loan. How you repay all this money when the Bridge comes to an end is key to understanding how Bridging lenders think.

A lender is not really interested in your income or your job or for that matter your credit history as they are lending you money based on how they will get it back as this will be classed as **sub prime lending**. What I mean is the ‘exit’ strategy — a word you will hear right at the very beginning of a conversation with a lender.

This exit strategy is the deciding factor to understanding if you are likely to be offered finance — how will the lender get their money back? They do not make any money until you repay the loan plus all the rolled up interest so the exit has to feasible, realistic and achievable.

For example you want to borrow £100k to finish a house you bought at auction for £200k and then sell it for £450k — think what is the exit for the lender? Easy — you complete the property improvements, put the house on the market and sell it. A lender would be comfortable with that arrangement knowing the works would take 6 months, the value would increase to £450k and then you would have 6 months to sell it.

What kind of fees are involved with bridging loans?

This depends on the circumstances of the loan — in general, there will be a fee for arrangement of the loan and there are administration fees as with all products. This varies from lender to lender, and our team is on hand to explain any complex terms and conditions so you know what to expect.

What about bridging loans for property refurbishment?

It’s a good product for renovations and refurbishments because you get funds really quickly to allow you to start the works immediately.

In fact, bridging loans are often used to convert properties into a state where a lender can provide a commercial mortgage. Not all properties are eligible for certain types of mortgages — you can use bridging finance to get the work done and get the property into a state where you can exit into a full term mortgage.

Can I use a bridging loan to buy a property at auction?

Yes, lots of buyers at auctions use bridging loans to assist with the purchase, rather than go to a traditional provider where the process is much lengthier — after all, you often only have up to 28 days to bring the funds to the table at auctions, making a bridging loan ideal. Read here for more about auction finance and what to expect, or our guide on buying property at auction.

How do first and second charge bridging loans differ?

If the property you're securing the loan against doesn't have any other loans secured against it, you'll get a **first charge bridging loan**. However, if, for instance, you already have a loan against the property as its mortgage is outstanding, a **second charge bridging loan** will apply.

Am I eligible for a bridging loan?

The lender will take various factors into account before making a decision as to whether or not you're eligible for a bridging loan. Property will usually be required as security and depending on the terms of the loan, you may need to provide proof of income. If you're taking a bridging loan out for commercial purposes, you may also have to show evidence of a business plan.

How much can I borrow with a bridging loan?

The amount you can borrow will depend on how much the property or properties you are using as collateral are worth. Broadly speaking, you can borrow between £5,000 and £250 million. The Loan-to-Value (LTV) tends to be between 65% to 80%

Where can I apply for a bridging loan?

You can use the Platinum Global Bridging Finance to find a bridging loan. High street banks, mortgage brokers and alternative specialist lenders offer bridging finance. The process is quick — you'll typically receive a decision within 24 hours and it takes around two weeks for the money to be transferred.

What do bridge loan rates tend to be?

Like the majority of loans, **bridge loan interest rates** can be either fixed or variable. If the interest rate is fixed, it remains the same for the duration of the loan term, so monthly payments will be consistent. If variable, the interest rate can fluctuate. Usually, the lender will set the variable rate in line with the Bank of England base rate.

Bridge loans usually have higher interest rates than other types of loan. Also, individuals who are yet to pay off their mortgage can end up having to make both a mortgage payment and a bridge loan payment until their previous home is sold. The interest rate is the main cost of bridging finance, however there are other fees to consider, including:

- Arrangement fees — usually between 1–2% of the amount you borrow
- Broker fees (if you use a broker to find bridging finance)
- Exit fees — some lenders will charge an exit fee of ~1% of the loan amount