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What is a bridging loan?

Bridging loans are short term loans secured on your property (i.e. a mortgage) – for up to 12 months in duration for regulated mortgage contracts – designed to provide temporary funding until a more permanent solution is found to repay the loan (e.g. refinance onto a traditional long term mortgage or sale of the property).
It can be used for a number of reasons such as:

- To enable the purchase of a new home prior to the sale of the existing one
- To purchase a property at auction with a short completion time
- To complete some works to the property prior to sale of the property or refinancing onto a traditional long term mortgage

Bridging loans are more expensive than traditional long term mortgages and are typically written on an interest roll up basis as monthly payments would often not be affordable.

What fees and charges do I pay?

Your mortgage illustration sets out the fees and charges you are expected to incur as well as the total cost assuming you repay your loan on time. If you haven't received a copy of the mortgage illustration from your broker then please contact them or Spring directly to obtain a copy. The Tariff of Charges sets out all other fees and charges that you might incur such as extension and arrears fees and additional administrative fees.

Why is the exit strategy so important?

Having a clearly defined and realistic exit strategy is vital before entering into a bridging loan. The longer you have the loan the more expensive it becomes and the greater the risk of defaulting and having your property repossessed.

Bridging loans are designed to be short term in nature (up to 12 months for regulated mortgage contracts). They are not suitable for longer term finance so you need to be sure you can achieve your exit strategy in that timescale. We will ask you for information about your proposed exit to make sure that it seems reasonable and will not lend to you if you cannot demonstrate to us that you have a realistic exit strategy.

Due to the high cost and risk of default you may need to consider things such as reducing your asking price by more than you would like in order to achieve a sale to exit the loan. It may be better to do this than incur additional charges and interest by not redeeming on time, and the longer you have the loan the less equity you will have left in the property.

Do I have to make monthly payments?

Unlike a traditional long term mortgage, you do not need to make monthly payments on your bridging loan. This is because the interest gets rolled up each month and added to the loan balance on which the next month's interest is calculated in a compounding effect. Interest is charged on a daily basis and compounded monthly.

For example, if you borrowed £100,000 at an interest rate of 1% per month, in month one you would be charged £1,000 in interest. The loan balance at the start of month 2 would be £101,000 and the interest charged would be £1,010 which would be added to the loan at the end of the month and so on. The amount you owe will therefore increase each month whereas on a traditional capital and repayment mortgage the loan balance would gradually reduce as you make payments of both capital and interest each month.

Your mortgage illustration will show how your loan increases in Section 7.

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Why can't I make monthly payments?

As bridging loan rates are more expensive than traditional mortgages most customers are unable to afford to make regular monthly payments from their next income each month. We do not offer monthly payments on our products so if this is important to you, you would need to look for a lender that can offer you this. You would also need to be able to pass their affordability assessment to show that you can afford the monthly payments.

What happens if I can't repay the loan within the term?

It is really important not to enter into a bridging loan if you do not think you can repay the loan within the term.

We will be in touch with you regularly during the course of the loan to check your repayment strategy is on track.

We always try to work with our borrowers to help them achieve an exit which is why regular contact during the loan is so important. The earlier we can identify the exit strategy is not likely to be achieved the more likely we can identify alternative solutions.

Can I extend the term?

Sometimes, however, things do not work according to plan. It might be possible to offer you an extension to your term if you need longer in order to repay. However, there is no guarantee that this will be available (for example if you are at the maximum loan to value or there are concerns about achieving the exit) and it comes at an additional cost.

If we do offer an extension it will be subject to evidence of the revised exit strategy being acceptable and realistic and you will have to pay an extension fee as per our Tariff of Charges. In addition, as you will have come to the end of your fixed term you may have to pay a higher interest rate according to our lending terms at the time. Extending the term can have a considerable impact on reducing the available equity in your property on final repayment.

Can I be repossessed?

We are a responsible lender which is why we focus so much on ensuring that your repayment strategy appears realistic and keeping in touch to ensure it remains on track.

We will obviously try our best to assist you however if you are not able to extend and no other solution is found then you will fall into default and possession proceedings may commence.

Possession proceedings start quicker under a bridging loan than traditional long term mortgages due to the negative impact on equity in not taking action sooner as a result of the higher interest rate. There is therefore a significantly higher risk of being repossessed under a bridging loan than a traditional long term mortgage.

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Can I draw my loan in stages?

If you are borrowing money for works to the property it may be possible to arrange for the loan to be advanced in stages. This will mean that you only pay interest on the outstanding loan balance so is cheaper than borrowing all of the money in one go.

If a drawdown loan is agreed we will agree a schedule of payments with you at the outset which will be subject to meeting certain criteria such as works completed and valuation update. You may need to pay additional fees per drawdown such as a revaluation inspection fee as per your Offer Letter and the current Tariff of Charges.

Your mortgage illustration will set out the fees and charges. However the regulatory requirement is for the illustration to assume that all of the funds are drawn down on day one which means that the total interest shown during the term would be higher than the amount you would actually pay.

When should bridging not be used?

Bridging loans should not be used where:

- traditional long term finance is available to achieve your goals
- your exit relies on a speculative repayment strategy
- you are uncertain that you can achieve your exit strategy within the timeframe of the loan
- where you want to use the loan term to repair your credit profile in order to achieve a better rate at exit
- you are using bridging in the hope that interest rates will fall in order to achieve a lower long term mortgage rate at exit
- you are not comfortable with the risks associated with bridging loans

What are the key risks of using a bridging loan?

Bridging loans are more expensive than traditional long term mortgages and represent a higher lending risk. They are only designed for lending over a short term – maximum of 12 months for a regulated mortgage contract – and the longer they remain outstanding the less equity will remain in your property.

Failure to redeem your loan within the term can lead to significant extra cost and reduction of the equity left in your property. This will be the case if the loan is extended or falls into default.

There is no guarantee that the loan can be extended if you do not redeem on time which can lead to action for possession.

The loan may cost you more than expected if your exit strategy does not work as planned – e.g. you may need to sell your property at a lower asking price to achieve a sale within the original term or extended term, take a refinance from a traditional long term mortgage provider at a higher rate than hoped for, pay extension and or arrears fees and charges.

There is also a higher risk of repossession than with a traditional long term mortgage and action for repossession occurs much quicker under a bridging loan along with the associated costs.

It is really important to consider whether you are confident that you can achieve your exit comfortable within the term and are comfortable with the risk before entering into the loan.

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