

Client Briefing 4

Commercial property bridging

Introduction

Commercial property bridging funding is a small and specialist area of lending. Advances are driven almost exclusively by property valuation with some lenders prepared to lend almost on a non-status basis (where they do not concern themselves with checking the borrower's ability to pay). Others are more cautious about establishing both serviceability (the borrower's ability to pay the interest as they go) and the feasibility of the proposed exit from bridging whereby the lender is to be repaid the capital.

As this is an area where charges are high and it is possible to make significant profits from defaulting loans, this is an area where you need to be well advised by Creative Business Finance Ltd as to your choice of lender.

Bridging loans will usually be for a set period, typically of six to twelve months, and may be either open (where you have not established how you are intending to repay the bridging loan at that point or are intending to roll the loan over into a longer term) or closed (where a specific deal has already been set up such as the sale of the property, whereby the bridger's loan is to be repaid).

Some lenders are developing alternative and hybrid products such as a two year 'super bridge' and a one year bridge that automatically converts to a normal 15 year term loan at the end of the period assuming that the account has been operated correctly.

Criteria and issues

For lenders, the key criteria and issues in lending are:

- valuation of the property by a professional valuer on the lender's panel;
- the quality of the property;
- the borrower's ability to service the borrowings; and
- the viability of the proposed exit.

As discussed above, lenders vary in the degree to which they are concerned over the last two issues.

Terms

The main players in the market lend at 75% of open market value (OMV); falling to 65% where they are lending as a second charge holder.

Facilities are usually granted for six months and are interest only arrangements with the loan capital repayable at the end of the term. Checking the provisions in respect of renewal of the facility at the end of the initial term is therefore critical in any open bridge.

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Bridging is expensive money. As well as valuation, broker and legal costs you can expect to pay a lender's arrangement fee of 2% to 3% and discounted interest rates of up to 1.75% to 2.5% per month. Interest is either collected upfront by way of a deduction of the total interest charge for the facility period from the initial drawdown, or monthly in advance.

The interest rates quoted above are the discounted rates for prompt payment and it is normal for the full rates to be almost double these. It is crucial that you are aware of this as in the event of default on a payment (such as failing to pay exactly on the due day), you will lose the right to pay interest at the discounted rate and will be charged at the full rate.

In the event of default, you should expect all lenders to take swift and robust action to secure their lending by way of appointing receivers to sell the building. In addition you will find that the lender will reserve the right to charge administration costs incurred in dealing with any default.

Factors to consider

If you take out a bridge where the interest is deducted from the advance on drawdown this has the advantage that you do not need to find the cash to make payments during the period of the loan. Against this it reduces the funds you actually raise by entering into the bridge and do not forget that at the end of the period, you will need to find the cash to repay the gross amount advanced, not the net received.

The alternative is to take out a bridge on a pay as you go basis, in which case ensure that you have sufficient funds to make all the payments on time to avoid the increased interest costs and charges that arise on default.

As defaults are an area in which lenders can make extremely high returns, and can recover these by appointing receivers to sell your property, you should take care that you are dealing with a reputable lender. While bridgers will generally be robust in their approach and expect to act swiftly in both lending and recovery, you should be cautious about dealing with lenders who appear to be willing to lend very aggressively or who are completely unconcerned about your ability to pay the interest or to repay the loan at the end of the term. You should also check the terms of any loan carefully to ensure that the rate and/or the basis of charges (eg X% over bank base rate) will remain set for the whole of the facility period and cannot be varied by the lender once you are signed up.

While a broker will charge you for arranging a facility (typically 1%, deducted from the advance drawn down), using a reputable broker such as Creative Business Finance Ltd will assist you in finding a reputable bridging lender.

If you are considering using bridging funding to raise cash for property development, you should be aware that there are specialist funding products for property development (see Funding property development – client briefing 8).

Free indicative offer

To obtain a free initial indicative commercial bridging offer please simply complete and return the attached property information form.

Property information form

Applicant

Name of company **or** names of individual applicant(s)

Is the applicant a limited liability company? Yes No

Nature of trade/business

Turnover (£000)

Does the applicant or a related person (spouse, common law partner, parent, sibling, child, grandchild, grandparent) dwell or intend to dwell at part of the property being offered as security? Yes No

If so, does this exceed 40% of the total security area? Yes No

Loan sought

Loan required Value Period (months)

Purpose of loan

Planned basis of repayment?

Is repayment basis in place or still to be arranged?

Loan servicing

How will the interest on the loan be serviced?

What evidence is there to support this proposal (eg audited accounts, investment income statements etc – please attach copies)?

