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DECEMBER 2007
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BRIDGING LOANS

Closing the funding gap

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CERTAINLY NOT A BRIDGE TOO FAR

Stephanie Spicer, supplements editor

Most of us still think of bridging loans as a means of providing finance to those wanting to secure a new property while still waiting to complete the sale of their existing property. But bridging finance has a myriad of uses beyond this.

Its use in buying property at auction is also increasing as it allows buyers quick access to funds.

Property developers have often funded their investments through bridging finance and as this market becomes more competitive this is increasingly a route they are prepared to take to help cash flow. As buy-to-let purchasers increase in numbers and build their portfolios they too will be prepared to look to the benefits of short-term bridging finance to speed up their purchases and developments.

Brokers are being encouraged to take advantage of the additional income stream they could glean from this market. Of course this does necessitate finding clients in need of bridging finance.

We cannot assume brokers have been turning hoards of potential bridging loans borrowers away at the door, nor that they are suddenly going to have existing clients for whom bridging finance is now an option.

Without doubt the wherewithall to facilitate bridging finance for clients when they need it is something brokers should have. This does not necessarily mean they directly process such deals themselves. There is much to be said about working with a specialist bridging finance broker or commercial broker who has experience of the product and the providers in the marketplace.

There are complexities in bridging finance not found in straightforward mainstream lending and these should not be underestimated. Brokers should easily be able to expect 1% in introductory fees from a specialist broker happy to arrange bridging finance for their clients. For those new to the market this is not to be sniffed at, especially while brokers are getting themselves up-to-speed with how the market and the product works. It will also ensure the best deal for clients.

But a codicil to this point is that clients will get the best deal provided the broker arranging that deal ensures certain elements to the loan are in place, namely no exit fees, reasonable rates and no other excessive and unreasonable fees.

And much is made of the double fee opportunity brokers have in securing a fee for arranging the bridging finance and then a second fee for securing subsequent long-term finance for the borrower when they remortgages at the end of the bridging loan deal.

Yes, brokers are invariably getting their clients out of a hole with bridging finance and helping them secure their desired property. But given there are, rightfully, two opportunities to secure fees, brokers may take a moment to consider just how much they are prepared to take in these fees. Earning an honest fee is one thing, taking a pound of flesh is another.

CONTENTS

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RISK AND REWARD IN TODAY'S MARKET

Intelligent and high-quality short-term finance is a boon for entrepreneurs, especially in a tough climate and by dealing with the right lenders, brokers can ensure their clients' bridging finance needs are satisfied

Roy Winston, chairman, Credit & Mercantile

In boom times, it's easy to lose sight of risk and hard to imagine that things will ever get tighter, which is probably why in recent years there have been some 21 new entrants to the UK mortgage sector.

We have hardly been short of prophets of doom in all that time, even if the current squeeze has been driven by global conditions, rather than the fundamentals of the UK property market.

All the same, the downward pressures look set to continue for some time, or even grow worse, and it would be optimistic to believe that when things eventually do improve, we will go back to the same buoyancy we have enjoyed for the past few years and the assumptions that went with it. The market is changing and we have to work with what we have.

Today's credit squeeze has refocussed minds on the realities of lending, up to a point. Certainly we are seeing a flight to quality, both in the type of client lenders will take on and in the kind of deals those borrowers are looking for. At the same time, it would be simplistic and unnecessary to batten down the hatches and assume that only the most stolid property deals are worth looking at.

While capital markets fret, entrepreneurs will continue to innovate and spot opportunities worth pursuing, but clearly they will continue to need funding to proceed.

At Credit & Mercantile, we have always been interested in supporting entrepreneurs, and as credit tightens it's all the more important that this support continues to be available. Above all, we need to ensure that worthwhile investment and development is not stifled by an undiscriminating caution.

In these conditions, short-term finance becomes an increasingly flexible and attractive option. Credit scoring systems are generally retrospective, reviewing payment histories and obvious current liabilities against income, but they are not designed to offer insight about the potential of any capital assets or, indeed, the talent of an entrepreneur.

When you deal with short-term finance, you have to quantify risks differently. We share the entrepreneur's outlook in that we'll look first at the opportunity. What is the borrower trying to achieve and do we agree that it offers a good prospect of a return? If that prospect is real and the security appropriate, we can price the risk accordingly and offer a competitive deal to make it happen.

This approach means it's difficult to offer anything that looks like a standardised financial product. Our business is all about making deals happen, and each one will be different, depending on the circumstances, and on what the borrower wants to achieve. But if this negotiation requires more intelligent scrutiny than an automated process, it's also critical that we can move quickly.

We have been doing this for a long time and have built up unparalleled experience, particularly at the higher quality end of the market. In this year alone, we have been asked for funding on projects with a total value of more than £1.3bn.

Typically, those requests will range from around £200,000 to over £15m. All our lending is secured against property, and could take the form of a bridging loan to secure a deal in a limited window of time, or could be 100% short term development finance to transform the value of an asset.

This experience matters because it means that we have the knowledge to assess quickly whether a proposition is sound. If it isn't, we will say so quickly, and the fact that so many of our customers have been working with us on successive deals over an extended period reflects their trust in our judgement. We don't give advice, but if we have to reject a proposition, that will in itself often give customers invaluable pause for thought.

If the proposal does look promising, we will put together a cost-effective deal quickly and definitively. Because we are a true principal lender, we do not need to seek approval from any third parties.

Although we are active in the premium end of this entrepreneurial market, we keep our rates cost-effective because we work from a detailed understanding of the risks involved. Our profitability is rooted in our ability to discriminate intelligently between good and bad prospects, minimising our exposure to bad debt.

This intelligence has made us the short-term lender of choice for many entrepreneurs in the UK. We can free cashflow for investment opportunities by offering loans that the banks themselves will not provide. It's important to distinguish this activity from sub-prime lending. Our customers may be asset-rich but, for any number of reasons, needing a short-term cash stream.

Properly designed short-term finance may also offer a more cost-effective means of rebuilding a credit history than a standard mortgage with high early exit penalties.

Intelligent and high-quality short-term funding offers an attractive and often neglected option, all the more so as the market tightens.

For brokers looking to widen the choices they can offer their clients, we can provide compelling propositions, with the length and depth of our experience helping us to build a market leading position in the UK.

The flight to quality need not imply a flight to recession. By taking a different view of risk, we can help support the continuing investment which in itself will fuel recovery.

SHORT-TERM GAINS, LONG-TERM AIMS

The bridging loans market is striving to shake off the negative perceptions about it and lenders, brokers and packagers all have a part to play in taking this niche sector to the next level

Stephanie Spicer, supplements editor

The bridging market is steadily clawing its way to respectability. It has not had the best press in the past and the perception still lingers that it is dangerous, but bridging finance has value in certain situations. The key is to get brokers to appreciate that fact and see how they can grab a share of this income stream.

Like many lending markets, bridging has felt the effect of the prevailing high interest rate environment and the liquidity crisis, as evidenced in some wobbles in consumer confidence.

Nevertheless, this year's annual report on bridging finance from Cheval and the National Association of Commercial Finance Brokers shows the market has grown by more than half since 2000, and that outstanding balances will hit £1.1bn this year. While specialist brokers are picking up an increasingly large share of the market (63% in 2005, up from 19% in 2000, according to the report), among traditional brokers it still only accounts for about 5% of their business.

"There has been an expansion in the number of bridging lenders in the past 12 months," says Nikki Cann, associate director at the NACFB. "This year, for the first time, we asked our brokers how much bridging business they had written and the total was £1.26bn, which is roughly a fifth of all the commercial mortgage finance written by members. As the market tightens, brokers look for additional income streams."

It seems brokers not considering taking this route could be missing a trick by not incorporating bridging loans into their offerings.

"Bridging finance should be a staple part of every serious broker's armoury," says Andy Moody, managing director of Loanoptions.co.uk. "Not only can it help save cases which have run out of time for conventional lending but it can also open up new avenues of business opportunity with clients who need fast temporary financing – particularly property developers and buy-to-let entrepreneurs."

Lenders also have a key role to play in taking bridging finance to the next stage of development, according to Mark Posniak, managing director of Cheval.

"The future looks promising," he says. "But by this, I mean for those that embrace the principles of the Financial Services Authority's Treating Customers Fairly initiative and adopt minimum benchmark standards. It's fair to say that some bridging firms have earned an unfortunate reputation for the sector. We are keen to put as much clear water between them and us as possible."

Cheval has introduced a code of conduct which ties it in to minimum standards such as charging daily interest and offering no minimum terms beyond the first month.

"I believe we will see a number of the less professional smaller bridging lenders leave the market," Posniak says. "They will not be able to afford the costly investments in back office systems and technology that are now required to act professionally."

There has also been a move among packagers to service and benefit from the bridging market.

"Packagers are looking to diversify to maximise fee income," says Helen Hymos, lender relationship manager at the Professional Mortgage Packagers Alliance. "This means looking at mortgage-associated products such as bridging loans along with secured loans and commercial mortgages. Businesses with lots of income streams will do better than those that let their volumes drop and fail to act.

"A number of PMPA members have expressed an interest in marketing and handling bridging loans and this is something we are working towards offering as a group."

Hymos says that by their nature, packagers are problem-solvers for brokers so there is a good fit between packagers and bridging.

"Bridging loans are used to help clients get the cash they need quickly until a longer term solution can be found, and good packagers already have a culture that is geared to finding the right solutions for clients that need something out of the ordinary," she says.

Hymos says the shortage of products, especially for sub-prime borrowers, could mean that demand for bridging takes off in a big way among borrowers who have gone a long way down the line with mortgage deals only to find products have been scrapped.

"The drawback may be that the broker or packager cannot easily find a longer term deal to replace the bridging loan and without this second element, bridging lenders are unlikely to offer the finance," she adds.

Hymos suggests that another use for bridging loans could be for clients to establish a better credit profile by keeping up payments for a year and then redeeming their loan with a longer term mortgage on a prime or near-prime product, of which there is no shortage.

"Packagers must help brokers – and through them customers – to understand the cost implications of bridging and the importance of not going into arrears."

Cann says what happens with the bridging sector over the next 12 months depends on how the wider market moves.

"Everything is unpredictable right now," she says. "But all things being equal, the future of bridging is positive. The industry is looking to cast off its old image and move forward. And as more brokers become aware of its usefulness, the industry will grow. But it's still important to remember that bridging is only one solution – and an expensive one – so it must be used appropriately."

EDUCATION IS KEY TO SUCCESSFUL SALES

The bridging sector could offer a potentially lucrative income stream to brokers but learning about the market and its pitfalls is the first thing they should do to ensure they offer clients best advice

Mortgage brokers are constantly being told to look to new income streams to boost their business and their service offering to clients. The same message is being bandied about regarding bridging loans. The market has potential, according to a recent Datamonitor report, which says that the market is growing by 16% year-on-year.

Whether this continues or not, and who can tell what will happen in the current market circumstances, without doubt bridging finance is a useful facility for individuals with assets but a short-term liquidity problem.

But there is a concern that when mortgage brokers are encouraged to delve into new markets danger lies ahead if they are not up-to-speed with exactly what is entailed.

The importance of education and training has been picked up by providers and brokers and those dipping a toe in the market would do well to avail themselves of the services that exist to help them.

For example, Cheval has set up an education suite in its offices to run workshops for brokers on how bridging finance works. And The Commerce Centre has also launched an online portal to educate brokers on bridging and commercial finance.

"Education, communication and motivation is our mantra," says Richard Wills, sales and marketing director at The Commerce Centre.

"We have a duty to educate our introducers in not only how to spot opportunities but also how to add value and broaden their own client services."

Mark Posniak, managing director of Cheval, says the importance for brokers of getting educated and trained in bridging finance cannot be underestimated.

"The more a broker knows about bridging, the better the quality of the advice they are likely to give," he says. "If your knowledge about a particular area is incomplete, you are unlikely to be able to spot sales opportunities with borrowers who could be crying out for a bridging deal.

"I would advise newcomers to the sector, and those who feel they could do with a refresher, to attend an introduction to bridging course."

The pitfalls for those new to the bridging market can be huge. As a specialist commercial broker Simon Ryder, managing director of Commercial Mortgage Bureau, says experience is key to get the best deal for clients.

"Bridging is a minefield," he says. "There are some good bridging providers in the market. But I know providers that have a minimum three-month bridging deal, then a two-month exit fee and an arrangement fee of some description.

"But I can provide any client of mine with a deal with a one-month minimum and no exit fee. If you are a specialist you know the pitfalls. You know the bridging lenders that are out to take their pound of flesh and I would avoid dealing with them."

The market is competitive with an enormous number of providers and Ryder's advice to novice brokers is source a specialist commercial broker who can sort out the best options for their clients.

Wills agrees he would not expect many introducer brokers to be doing many bridging finance cases and sourcing a specialist to assist is a good way to go.

"It is typical that when clients' need for a bridging loan arises often in critical circumstances many introducers are not able to assist them and provide a solution that allows their clients to achieve their aspirations or objectives," he says.

Wills says there are different ways of delivering residential or commercial bridging products. For residential deals The Commerce Centre has a web-enabled compliant system that produces quotes and appropriate documentation for brokers.

For commercial deals he says the same logic applies albeit this area of finance is unregulated.

Andy Moody, managing director of Loanoptions.co.uk, also pushes the introducer route.

"Busy brokers need to have a basic grasp of what bridging does and does not do but I believe it is more important to find a specialist partner who brokers can trust to come up with the best deal from a range of lenders," he says.

"Outsourcing frees up time and when done properly, ensures client satisfaction and generates new income opportunities."

While there are obvious advantages to being trained in advising on bridging loans whether going alone or going the introducer route there are dangers for clients if not for brokers' reputations in getting it wrong.

"It is important to bear in mind that bridging finance is a specific tool for a specific job," says Nikki Cann, associate director at the National Association of Commercial Finance Brokers.

"It is expensive and so brokers should always look at the exit from any bridging finance at the time it is arranged – whether that is by the means of selling another property or a remortgage.

"And because of the costs involved it is important that brokers know what their clients are signing up to. But although some brokers may specialise in bridging finance it is probably better that bridging is seen as one of a range of solutions rather than the only product."

By Stephanie Spicer, supplements editor

CAN YOU AFFORD TO IGNORE BRIDGING?

Many brokers hold outdated misconceptions about bridging finance but these days, they can use this flexible facility to earn lucrative commissions and ensure they keep their clients satisfied

Gary Gardner, director, GB Finance Group plc

In a demanding world where everything is wanted quickly, is it any wonder that the bridging finance market is expanding at such a rapid rate?

This market is forecast to more than double to over £5bn of lending by the year 2010 but with an average default rate of 22%, speed can clearly compromise transaction if the dynamics are not managed responsibly. In the current uncertain economic climate, this point has never been more important.

But in professional hands, bridging finance can be a flexible and versatile tool and a valuable addition to the array of products brokers can offer their clients. This may go against the perception some brokers have of the bridging business, which has in the past, had some negative press. Some brokers still have a number of misconceptions about bridging finance and so have reservations about using this product. The four most common perceptions are that:

- Bridging finance is simply a way to bridge a gap in terms of time and funds between the sale of one property and the purchase of the next.
- Bridging finance is a sub-prime product which is only to be used as a last resort.
- Bridging finance is expensive.
- Bridging finance companies are all loan sharks.

All four points may have been true in the past but in the modern financial world of regulation and high corporate standards, brokers need not worry about working with reputable bridging finance providers.

Brokers new to this sector are often pleasantly surprised at the speed and simplicity of bridging loan applications compared with the traditional mortgage and banking worlds.

Loans are offered within hours and completed within days – sometimes in as little as 24 hours – and commissions are paid to brokers on the same day as completions.

Many established brokers now embrace what can often be a key ingredient in a financial solution to their clients' problems and save deals that may have otherwise been lost, while at the same time enhancing their own business with a lucrative source of income. Brokers not only receive a proc fee from the bridging loan but also a proc fee from the remortgage which repays the bridging loan.

One widely held misconception is that a bridging deal can only be used to bridge the gap between the sale of one property and the purchase of another, but this is not true. Whether your client is a company, a partnership or an individual operating as an inverter or developer, there is a bridging product for them.

Bridging is an ideal medium for clients with wealth in the form of property assets who want to quickly extract liquidity from those assets. It is a flexible tool which can be used for a number of purposes.

Modern bridging finance is the key ingredient in a menu of financial funding solutions, some of which are listed below.

- **Maximising borrowing** – A professional bridging finance firm should have the skill to lend money against the true value of a property rather than the purchase price. Thus, a client has the ability to raise 100% of the cost of a property via a bridging loan and refinance the transaction using a bank so they can comply with traditional banking criteria.
- **Fast cash** – An efficient bridging loan effectively gives a client the status of a cash buyer due to the fact that funds can be available within 24 hours. This facility enables property developers to negotiate significant reductions in the purchase price of properties with the final discounts being significantly greater than the cost of the finance package.
- **Land banking** – A bridging loan can support clients with the purchase of a site or property while a new planning application is being processed so that when the transaction is finally presented to a bank, it only sees the final stage. This allows clients to maximise the funds raised on the back of planning gain.
- **Refurbishment facility** – A bridging loan with vision can enable a client to purchase a property and then undertake a full refurbishment before it is presented to a mortgage company for long-term finance. The client is then able to maximise the amount of their mortgage because is a simple refinance proposition.
- **Bankruptcy annulment** – A sophisticated bridging loan can be used to release equity from a property to pay off creditors, thereby annulling a bankruptcy and enabling a broker to arrange a simple remortgage to refinance the bridging loan.
- **Inheritance Tax management** – This is a classic chicken and egg situation whereby a client will need to pay IHT before they can access the inherited estate. A simple tax bridge will enable them to settle the IHT liability and so unlock the whole process.
- **Credit status repair** – A long-term bridging loan can be used effectively to take a client out of the focus of the mortgage market and give them a period of grace so they can manage their affairs in a proper manner and then relaunch themselves back in the mortgage world when they have their financial position under control.
- **Property retention** – Why allow a client to sell their property to a developer in a distressed state and only achieve a fraction of its value when a lifeline bridging loan could help them consolidate their financial position, allowing the broker to structure a longer term finance package?
- **Professional bridging loans** – Doctors, dentists, solicitors and even accountants sometimes experience blips in their cash flows. With a professional bridging loan, these can be managed cost-effectively and in a confidential manner.

Of course, there are many more solutions that cleverly use bridging finance techniques and bridging finance should no longer be seen as a last resort. Providers have the expertise to present brokers with solutions to their clients' problem within hours.

Another commonly held misconception is that a bridging finance deal is the most expensive option available to clients. Time is often at a premium and opportunities will not always wait while traditional funding is arranged. There is an opportunity cost attributable to many of the transactions we fund because it can be much more expensive to lose a deal rather than pay for a short-term bridging solution.

Of course, this doesn't mean to say that brokers should not factor cost into the equation when looking for a bridging finance provider but more consideration should be given to fundamental factors such as service which delivers solutions efficiently and the experience of a professional team with a wide menu of solutions. These two factors are crucial in ensuring that solutions are structured correctly, first time.

GB LAUNCHES NEW PRODUCT

GB Finance Group PLC is pleased to be launching a new product range, which will not only offer greater flexibility to our professional and non-status clients but competitive rates and terms too:

- Professional bridge products from 0.9% per month
- Standard non-status bridge products from 1.15% per month
- Closed bridges from one day to one month
- Standard bridge from one month
- Loans paid out without deduction

So other than new products, why choose GB?

As a lender GB aims to lead the bridge funding market in terms of flexibility, speed of decision making and availability of funds. We understand that rarely are two deals the same so we adopt a flexible approach to underwriting security to the individual clients requirements. Other reasons why include:

- One of the lowest default rates in the market place
- Intermediary-focussed service
- Decision in principle within hours
- A simple and transparent application process
- Inhouse support team for both bridge loan structuring and after bridge draw down support
- All property types considered
- 100% purchase finance available
- Same day commission paid to intermediaries of 1%
- Uncapped commission available to intermediaries

Don't just take our word for it – a recent bridge completion has resulted in another satisfied client. A developer had arranged to purchase a site in Merseyside for a back to back re-sale. He had already made provision for bank funding as a precaution in case anything went wrong. Unfortunately due to reasons out of this control, the developer was unable to achieve a simultaneous completion and the bank funding could not be arranged in time. GB was able to secure the £1.2m in 24 hours to save the deal.

So is bridging finance for the sub-prime sector only? Definitely not. Modern bridging finance products are designed to solve financial problems fast, and both prime and sub-prime clients have problems.

We recently launched an additional range of bridging products designed for the prime and professional market but which still pay brokers commissions of 1% upwards.

GB Finance Group plc is a professionally incorporated bridging finance company which has established a national business on the back of high service levels, corporate ethics and a skilled team of experienced professionals. Brokers are at the centre of what we do. Our aim is to deliver a quality funding solution fast to their clients in a transparent and straightforward process. We appreciate that brokers build their businesses on the back of high service levels and bespoke professional solutions so the bar is set high when it comes to contact with their clients.

Therefore at GB, service does not end when a bridging loan solution has been delivered. Our inhouse skilled support team will also work with brokers to find suitable financial packages to repay the bridging loans if necessary. This additional after-bridge service has allowed us to achieve what we believe to be one of the lowest default rates in the industry and ensure we have many satisfied clients.

So modern bridging finance can be a flexible solution to clients' problems, with competitive terms delivered professionally. The benefits to brokers are lucrative commissions and satisfied clients. If you are new to bridging finance or are looking for a lender to work with you, GB is here to help.

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BROKERS HOPE TO BRIDGE THE GAP

Bridging finance is growing in popularity and is likely to take up some of the slack for brokers whose businesses are suffering as the liquidity crisis takes its toll on the sub-prime sector

There are few chinks of light in the darkness of the fallout from the US sub-prime market crash and its impact on liquidity and credit options in the UK.

As sub-prime lenders pull products, shift rates and jettison staff, it's hard to see opportunities for anyone in the mortgage market but those specialising in bridging finance may be best placed to forge a path through the lending impasse, along with brokers ready to source bridging loans.

Back in January, Cheval hailed bridging finance as the new sub-prime. Not such positive connotations today, but back in January with the sub-prime fiasco a million miles off the radar, there were positive reasons for the claim.

It was about potential, as Cheval predicted opportunities in sub-prime would decline and those in the bridging finance sector would increase as brokers looked for new sources of income.

At that time, Cheval's research showed that just under 50% of brokers were engaged with bridging finance and 25% were unfamiliar with it. But Mark Posniak, director of sales and marketing at Cheval, felt that while the sub-prime market was congested and had few growth opportunities, the pattern was set for bridging finance to take its place in broker's loans arsenal.

Nine months on, does Posniak feel as bullish?

"Absolutely," he says. "Bridging finance has a lot of growth left in it. Unlike sub-prime mortgages that may have started to decline in potential, bridging has many years of development to come. Some brokers are only now opening their eyes to its many uses.

"We believe the sector is at a similar stage of expansion to the sub-prime mortgage market 15 years ago and that growth will come from improving broker awareness and customer education. This will lead to a growing acceptance of the use of short-term finance."

Packagers are getting in on the outgoing tide that washed sub-prime lenders onto the beach. Just last month, Chase UK launched its Chaseblue Loans bridging venture to meet the growing demand created by the liquidity crisis.

Chaseblue Loans says bridging finance has increased in volume by around 15% in the past two or three months. In October, Chaseblue's research to quantify the impact of the liquidity crisis on its brokers and how it was affecting business volumes found that almost a third of brokers had seen secured loans business increase in volume by a margin of 20% over the past two months. The main contributing factor was the limited LTVs achieved by first charge products.

"There is no doubt that bridging loans have increased in popularity in the past two years," say Hywel Loveluck, chief executive of Chaseblue Loans. "We estimate that at least eight new entrants have come on board in the past 18 months.

"As a result of restricted liquidity, bridging is inevitably a tool that will be considered, but from a Treating Customers Fairly perspective, we advise brokers to look more at medium-term products before considering bridging as an alternative to mortgages – i.e. secured loans. Only then do we look at the bridging option, which can be the correct tool in certain circumstances."

Of course, bridging finance is likely to be more expensive than prime status lending and will certainly be more expensive for non-status borrowers. So is it realistic to think we can expect to see sub-prime rejects desperately seeking bridging finance?

Simon Ryder, managing director of the Commercial Mortgage Bureau, is not convinced this is bound to happen.

"Just because there is a credit crisis it doesn't mean bridging finance is going to come into its own," he says. "If a client is trying to borrow money and his credit doesn't allow him to borrow the amount he needs, what solution is bridging finance at a rate that is twice the price of long-term finance? It doesn't make economic or business sense."

So how are lenders faring in the current market? Are they as affected as sub-prime lenders?

Richard Wills, sales and marketing director at The Commerce Centre, doesn't think so.

"Most established bridging providers have secure sources of funds and therefore have not been adversely affected," he says.

Ryder agrees. "I don't know of one bridging provider that lends against LIBOR and it is LIBOR that has been hit," he says.

"Some lenders are only prepared to let bridging finance providers lend up to 75% LTV but you never know about a funding line unless LTVs are cut. I know the residential sub-prime market has seen LTV cuts but commercially, I have not known one lender to reduce its LTV.

"They may increase their rates for their LIBOR borrowing because they are having to borrow money at, say, 6.3% and to get that back they are probably having to increase their margin," he adds. "When clients ask me what maximum LTV they can get on a sub-prime bridging deal and I say 85% and that it will cost 6.2% more than three-month LIBOR, currently 6.3%, so they will be paying 12.5% they say that's too expensive. So the message is don't borrow, go and find a bigger deposit."

Ryder says he is doing full status deals at 1.25% or 1.45% above the Bank of England base rate with no problem, but he says that the market has gone quiet.

"Anyone who says they are busy is lying," he adds.

By Stephanie Spicer, supplements editor

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A FLEXIBLE FRIEND FOR CLIENTS

Once considered as a last resort, bridging loans are becoming an increasingly popular option to fund a range of client's needs, so brokers must not miss out on the opportunities provided by this sector

Gary Bailey, director, Blemain Group

Over the past few years, bridging finance has come into its own as the preferred short-term funding solution for a variety of borrowers. This growth in popularity has been fuelled in part by developments in the property market, which have resulted in an increasing interest from investors, developers and other property professionals. Brokers need to be aware of the opportunities for them to provide bridging solutions to a growing number of potential clients.

As the market for rental property continues to grow, so does the number of investors keen to exploit it. Statistics from the Council of Mortgage Lenders show that the value of buy-to-let mortgages outstanding has almost doubled over the past three years.

But for many investors, arranging a mortgage is the second stage in the process of buying and developing a buy-to-let property, with bridging finance constituting the initial funding. In addition to property acquisition, bridging finance also has a number of other applications ideally suited to the needs of buy-to-let investors and property developers.

One of the most important characteristics of bridging finance is the speed at which it can be put in place. Experienced lenders are geared to respond rapidly to enquiries, with streamlined processes that often allow them to fund cases within 48 hours of initial contact, and sometimes in as little as 24 hours. This is ideal for clients who are under pressure to complete on a deal.

For example, it is increasingly common for an auction buyer to have as little as 10 days to complete on a property if it has been sold as the result of a repossession. A client in this situation does not have time to go through the process of arranging a conventional mortgage from a mainstream lender, but a bridging loan will allow them to complete on their purchase while giving them the required breathing space to track down a competitive mortgage.

Bridging loans can be secured on any type of property, regardless of construction or condition, which makes them useful for property investors. If the condition of a property is such that a mortgage cannot be secured on it then a bridging loan can be deployed to acquire it and carry out any refurbishment required. When this work is complete and the property is mortgageable, the bridging loan can be redeemed with the finance provided by a more conventional first charge loan.

This aspect of bridging loans creates great opportunities for brokers. Short-term funding solutions expand the range of services available, helping to retain clients against competition and generate increased revenues. When a client is looking to redeem the bridging loan that you arranged for them, who are they most likely to call on?

The fast, flexible short-term funding provided by bridging finance is often employed to release funds for portfolio development and can also be used to acquire land or snap up bargains where new-build properties are offered at discounted prices for a limited period.

We see many property investors who never use a traditional mortgage product. The finance from a bridging loan is used to acquire a site and further funds are drawn down over a period of time to pay for any required development work.

When this is complete, the property is sold at an increased value, providing the capital to pay off the bridging loan and generating a healthy profit. Obviously, this approach requires a substantial amount of expertise on the part of clients, but investors with the necessary know-how can be an excellent source of business for brokers with access to the right kind of short-term finance products.

The number of lenders entering the bridging market has grown in response to the demand for this type of funding. This is good news for brokers looking to add bridging products to their portfolio as there is increased competition to provide the most flexible and efficient services.

There are a number of important factors brokers should consider when looking at potential bridging suppliers. It is best to work with lenders with considerable experience of bridging finance across all sectors of the market. This will have allowed them to develop a thorough understanding of customers' requirements and to tailor their products accordingly.

Many property investors require more time to maximise the value of an investment before selling it on or securing a traditional mortgage. Experienced lenders are aware of this and will be able to offer short and long term solutions.

It is also worthwhile approaching lenders with diverse repayment options, and features such as deferred payments and payment roll-ups are a great boon for clients whose assets are tied up in a development, since they are able to put off any substantial repayments until their capital is freed up by the resale of the property.

Another beneficial feature is the ability for the client to draw down funding in stages, as required. This allows them to agree the loan for an amount that can cover all the necessary expenses on a development, but only pay interest on constituent sums as the project requires them.

Bridging finance is also being used for diverse purposes such as corporate recovery, management buyouts and handling probate delays.

Once considered a last resort, it is now entering the mainstream as an ideal solution to the numerous situations where clients need to raise funds quickly for limited periods. Brokers should not miss the bridging opportunity.

SHORT-TERM ROUTE OUT OF DEBT

With high interest rates and affordability issues making life increasingly difficult for home owners, some pundits say bridging loans could offer a short-term solution for those with equity in assets

For some time now the market has pondered statistics showing that the impact of higher interest rates, living costs and property prices is causing many home owners to struggle financially.

Also a willingness of individuals to avail themselves of credit they probably can't realistically afford to repay is impacting on their ability to keep mortgage payments up and generally meet creditor demands.

As an expensive way of borrowing one would not immediately see a role for bridging finance in this market but some argue it has its place.

There are chinks of light in the gloom in that figures last month from the Insolvency Service showed that personal insolvencies had dropped by 3% on the previous quarter, with 26,072 people entering into an individual voluntary arrangement or bankruptcy, down from 26,869 on Q2.

Of these, IVAs had decreased from 10,669 to 10,239 and bankruptcies from 16,170 to 15,833.

There were 3,106 company liquidations in Q3 up from 3, 051 in the second quarter with 1,264 of these compulsory (down from 1,341 in Q2) and 1,842 voluntary liquidations (up from 1,710 in Q2).

In April, Affirmative was reporting that the trend to bankruptcy and insolvency was pushing up the take-up of bridging loans, possibly reflective of individual insolvencies of 29,715 in Q4 2006 and 29,338 in Q1 2007.

The idea of course is that debtors use these loan options to settle debts with creditors. Whichever loan option is chosen the key is to ensure the borrowing term is a short one.

A broker's role in this instance, perhaps more than any other bridging or secured loan scenario, is to ensure that short-term is secured, and that borrowers get the best deal in terms of rate and exit restrictions or penalties.

Once again, in light of the Treating Customers Fairly principles, there would need to be a good case for borrowing further to settle debt. Charging two fees, one for arranging the bridging finance and another for getting the subsequent remortgage is even more questionable.

Gareth Neill, partner at Grant Thornton, feels straightforward remortgaging is a more common option for consumers with credit issues than the bridging finance route. But despite a fall in personal insolvencies in the last quarter this may change going forward.

"We may see an increase in IVAs in the light of the credit crunch, because there is no way of servicing these debts by remortgaging," says Neill. "Even secured loans applications are getting bounced back. Brokers are looking for other options, but currently bridging loans are not really on the Richter scale as regards what those options are.

Neill points out that if someone has equity in property bankruptcy is not the best option so IVAs may become more common, although he adds evidence of this won't be seen until perhaps the second quarter onwards next year as IVAs typically take time to work through.

"It is horses for courses – if people now believe debtors can be paid off in January and therefore borrowing can be a short term then bridging loans can be an option. But either way people should be getting advice on what to do and not just taking the bridging loan route without professional advice."

Cheval has a product designed for those with significant equity in their assets and who are in danger of or wish to discharge a bankruptcy.

In such circumstances bridging can be a good way to stop any proceedings in their tracks, says Mark Posniak, managing director of Cheval, but he warns that the presence of equity in assets is the key for going down this route.

"Bridging is designed for those with a liquidity shortage," he says. "They are often cash poor but asset rich. Our typical client is frequently well off in terms of the value of their assets, but they need to extract equity from their asset base.

"Bridging is not designed for those who are experiencing financial difficulties and who have little in the way of asset equity. With this in mind, we do not advise that bridging be used for those with few assets who are in financial difficulty."

By Stephanie Spicer, supplements editor

Number of insolvencies in England and Wales (seasonally adjusted)

		2006 Q3	2006 Q4	2007 Q1	2007 Q2r	2007 Q3p	Percentage change Q3 2007 on: Q2 2007	Q3 2006
Company liquidations		3,250	3,,202	3,097	3,051	3,106	1.8	-4.4
Of which:	Compulsory	1,335	1,406	1,382	1,341	1,264	-5.8	-5.4
	Creditors Voluntary	1,914	1,796	1,714	1,710	1,842	7.7	-3.8
Individuals		27,430	29,715	29,338	26,869	26,072	-3.0	-5.0
Of which:	Bankruptcies	15,486	17,070	16,742	16,170	15,833	-2.1	2.2
	IVAs	11,944	12,645	12,597	10,699	10,239	-4.3	-14.3

Source: The Insolvency Service, r = revised, p = provisional

A WIN-WIN SCENARIO FOR BROKERS

Chosen carefully, a strong strategic partner in bridging finance is an asset to any broker's portfolio and leads to a win-win situation in which clients gain access to short-term finance and brokers benefit from additional revenue

They say nothing endures but change – and that has certainly been the case in the bridging market. No longer is bridging simply a distress product used as a last resort when all other financial avenues are exhausted. Neither is it a market ruled by the formulaic lending criteria of the mainstream lenders.

Bridging or short-term finance, as it is now often called, has become a dynamic sector and an established feature of the property funding market. Bridging has been a feature of the residential market for some time, typically used to complete on the purchase of a new house before the sale of the old one.

The residential bridging market is regulated by the Financial Services Authority and the Consumer Credit Act and represents roughly 25% of the overall market.

The commercial bridging market is unregulated, represents 75% of the sector and has seen strong growth in the past five years. Commercial finance has enabled developers and investors to finance the rapid acquisition of property or land assets or to redevelop or refinance existing properties to maximise opportunities in a strong property market.

Bridging was previously the domain of the mainstream banks, but these lost control of the market when they centralised all but small personal loan decision making. When a developer needs to move fast, as is most often the case in bridging, the banks are not an option. In such circumstances, a specialist bridging finance lender is the solution.

A good bridger will not only move fast but should also be able to come up with a viable funding solution when a deal appears to be out with the normal comfort zone of the mainstream lenders.

This ability to plug the funding gap during the critical early stages of a project has resulted in bridging finance becoming an established element of the property funding process. With the greater complexity and activity that is now a feature of the property markets, both residential and commercial, access to short-term finance has become vital as the property market has grown over the past five years.

This growth has been driven by a favourable interest rate environment and underpinned by strong economic growth. The outlook for the bridging market is bright, with gross advances in the sector expected to see rapid growth from £2.5bn in 2005 to £5.6bn in 2010.

In the commercial and residential property sectors, values have been rising for the past five years, with billions of pounds pouring into offices, shops and industrial property. Overall lending on commercial property grew by almost 20% in 2006, hitting an all-time high of £85.7bn.

Given the potential in the sector, inevitably the number of companies entering the market has also grown. There are plenty of new entrants, most with limited funding, and many seem to come and disappear after an initial flurry of PR and advertising. Reliability is the key – will the lender deliver?

The lender has to demonstrate an ability to make a fast decision, which can then be relied on, and know that they can deliver within the borrower's timescale. Reputation and staying power in the market are also important and borrowers should always look to the quality of the team carrying out the legal part of the process. It goes without saying that fees and costs should be transparent from the outset.

As the property market becomes more complex, with funders, advisers, experts, opportunistic buyers and sellers all chasing deals, it is becoming more difficult to find an off-market deal that will deliver a guaranteed return, with the result that developers and investors are having to be more innovative in sourcing finance to make the deal work.

Sourcing is where professional brokers play a crucial role. Most lenders prefer to engage through a professional intermediary and this is good news for brokers as bridging can be a lucrative sector for the switched-on professional intermediary. The commissions paid are some of the healthiest in the finance sector.

If brokers feel bridging is unfamiliar, it is a good idea to establish a relationship with a lender before the need for a bridging deal arises.

Chosen carefully, a strong strategic partner in bridging finance is an asset to any broker's portfolio and works as a win-win scenario in which the client is able to achieve what they would not be able to achieve without bridging finance, and the broker's increased rate of completion means they benefit from a healthy additional revenue stream.

Bridging loans, due to their nature and higher risk, come at a higher cost than standard loans, but without them many property transactions would not happen. Brokers need to encourage clients to look at the bigger picture, view the bridge as a deal cost and consider the opportunity cost of failing to land a deal or complete on a transaction.

The past year has seen Mathon achieve record growth. I see the outlook for the next 12 months as positive, although – as with any market – there may be a few challenges to face. The rises in interest rates have increased the cost of borrowing and there are some fears that any further increases in interest rates could cause problems.

There is evidence that the credit squeeze created by the US sub-prime crisis in the summer is making it more difficult for borrowers across the board to borrow money. This is likely to have an impact on the smaller players with already limited capacity, as well as those heavily backed by the mainstream banks, but principal lenders such as ourselves that are privately funded will continue to be able to offer their clients the capacity they need.

By David Lutton, chief operating officer, Mathon

STRENGTH WHEN IT IS NEEDED MOST

Bridging loans can play an important role in strengthening house buying chains that might otherwise fall apart as the liquidity crisis takes its toll on the mortgage market and lenders withdraw or change deals rapidly

John Maclean, managing director, Link Lending

Link Lending relaunched into the bridging loans market in August 2006 offering transparency, market-leading rates and consistently high service. Since that time, it has quickly gained market share and achieved its goal of becoming a major player in the bridging loans sector.

Substantial investment has enabled Link Lending to seize the advantage of using automated systems and concentrate on developing and sustaining successful relationships with business introducers, with the aim of gaining market share quickly.

Distributing products through commercial and residential brokers, Link Lending is closely associated with Money Partners and Commercial First Mortgages and directors include David Johnson, Paul Gower and Philip George.

Link Lending is transparent about its terms, with no early repayment charges or exit fees, and no upfront processing fee. There are no minimum borrowing terms and legal fees are charged at a flat rate as opposed to a percentage of the advance. Rates start at 0.75% per month, and loan values start at £30,000 with a maximum of £1.5m. Loans are available for commercial and residential properties. A daily interest guarantee ensures interest is calculated on a daily basis no matter how long loans last, and interest can be rolled up or paid monthly.

Following a major IT enhancement, an online case tracking system allows registered brokers to use the facility to see the progress of their cases from start to finish at any time and on any day of the week. Uniquely among tracking facilities offered by bridging lenders, the system allows users to see correspondence, documentation and all communications between lenders, solicitors, brokers and customers.

Two new functions have also been added to the online offering for brokers. First is the ability to create a Key Facts Illustration if a case is Financial Services Authority-regulated or a Link Lending Illustration giving equivalent levels of disclosure to customers where a case is not FSA-regulated. Also, an online decision in principle for straightforward cases is offered with only complex cases being referred to underwriting staff for decisions.

If referred, there is a commitment to phone brokers back within three working hours with decisions. Brokers only have to key in customer information once. This is then transported and used in the production of KFIs and DIPs.

Link Lending has recently secured an additional £50m warehouse funding facility arranged by Deutsche Bank as well as its existing funding arrangements with Barclays. Unlike some other bridging lenders that have static funding lines and rely on redemptions to release funds for new loans, the strategy is to continue to grow lending volumes in response to demand from brokers.

Bridging and short-term lending is a fast-moving sector and brokers need to have the confidence that their chosen lender can deliver funds quickly, without having to wait on another loan redeeming before their client's loan can be completed. Link Lending has an appetite to lend on the right deals, and the additional funding line from Deutsche Bank will help it to achieve its planned growth and continue to deliver the high service levels brokers have come to expect.

Traditional bridging finance for residential and commercial properties allows for the purchase of a new property prior to the sale of an existing one. Link Lending takes a first charge on the new property and a second charge on the old property, in certain cases allowing the full purchase price to be released.

Bridging finance is an answer when a client needs to act quickly, for example where the offer of a mortgage is revoked or a buyer drops out and there is risk of losing the deposit. Other examples include discounts negotiated for quick completion, the purchase of a property at auction with only 14 days to complete and lender retentions whereby borrowers complete purchases with bridging loans, carry out necessary work and then remortgage.

Where borrowers want to buy properties that require refurbishment that increases value, bridging finance allows a property to be purchased, the refurbishment works be completed and the property to be either sold for profit or remortgaged on a long-term loan.

Short-term capital-raising is another situation in which a bridging loan can allow a borrower to raise funds against property on a first or second charge basis for any legal purpose – for example, to settle a tax bill, to buy an investment or development property, to ease cash flow problems, a divorce settlement, the purchase of an overseas property or the purchase of a business.

The trend towards a more diversified mortgage and loan market, and in turn the growing demand for short-term finance has been driven by market conditions including house price inflation that continues to give householders access to increased capital, a growing number of self-employed consumers and small business owners and a rapid growth in entrepreneurial activity, notably in buy-to-let and property development.

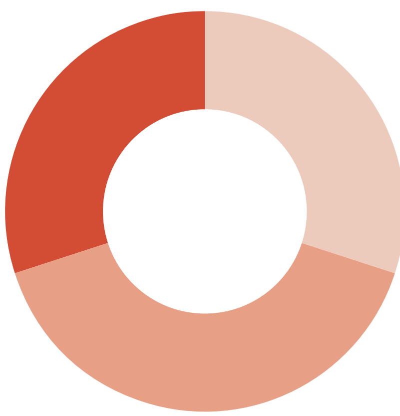
The current lack of liquidity in the residential mortgage market has also resulted in a trend towards more restrictive criteria and the withdrawal of some mortgage products. This has the potential to boost the profile of bridging loans as a way to hold together a chain of buyers and sellers that might otherwise collapse.

MAKING THE MOST OF THE BRIDGING SECTOR

Our exclusive survey shows that brokers are taking advantage of the opportunities bridging finance offers their clients in terms of being a short-term fix for cash flow problems rather than a long-term solution

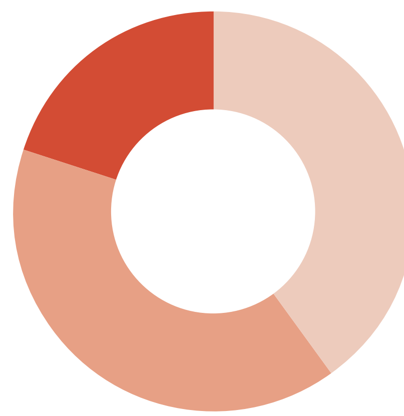
Q1: What proportion of your business is bridging loans?

Up to 25%	30%
50%	40%
75%	30%
100%	0%



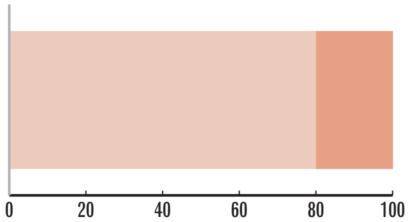
Q4: What are clients most using bridging finance for:

Completing on a new purchase if the current property is yet to sell	40%
Buying property at auction	40%
Buy-to-let portfolio building	20%
Self-build property	0%



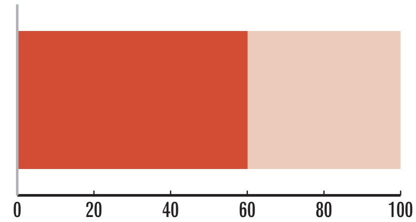
Q2: What proportion of your business is residential bridging loans?

Up to 25%	80%
50%	20%
75%	0%
100%	0%



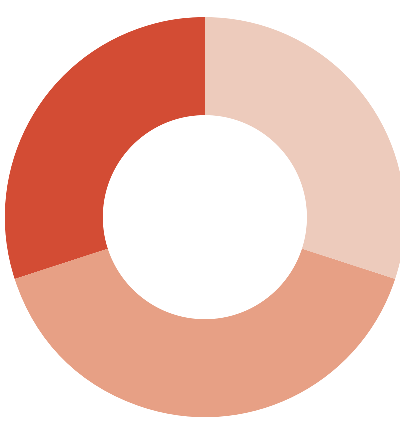
Q5: Would it be helpful if bridging finance was renamed short-term finance?

Yes	60%
No	40%



Q3: What proportion of your business is commercial bridging loans?

Up to 25%	30%
50%	40%
75%	30%
100%	0%



Q6: Are faster mortgage completions a threat to bridging loans business?

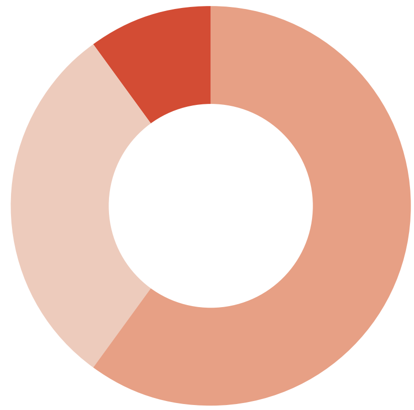
Yes	60%
No	40%

Q7: What do you want to see from bridging loan providers?

Lower interest rates	60%
Faster turnaround times	40%
Higher LTVs, i.e. over 85%?	0%

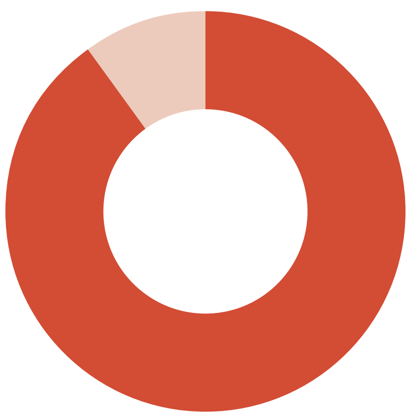
Q9: How do you rate proc fees/commission from providers?

Adequate	60%
Poor	30%
Good	10%
Excellent	0%



Q8: Should early repayment charges on bridging loans be removed?

Yes	90%
No	10%



Q10: Are you seeing an increase in the use of bridging loans in cases of bankruptcy?

No	60%
Yes	40%

SURVEY RESULTS

Mortgage Strategy's online survey on the bridging loans market shows encouraging signs in terms of the proportion of business brokers do in this market.

Proof that the sector is growing in popularity is evident in the statistics that show that for 30% of broker respondents, bridging loans comprise up to 25% of their business, for 40% it is half their business and for another 30% it is 75% of business.

Breaking that down into commercial or residential loans, for 80% of brokers residential bridging loans comprise up to 25% of their business and for 20% it is half.

For another 30% commercial bridging makes up to 25% of their business, for 40% it is half and for 30% of brokers it is 75% of their overall business.

"Bridging finance is a useful tool for brokers when talking to their clients," says Nikki Cann, associate director at the National Association of Commercial Mortgage Brokers.

"It offers a quick solution to cash flow problems. For example, if a client has purchased a property at auction without securing a mortgage first a bridging loan can secure the property for the client and allow the broker time to secure the client a good mortgage.

"But it's important to remember that a bridging loan is a short-term solution for a short-term problem," she adds.

There has been debate around the term bridging loans and whether it would help if was renamed short-term finance. Well, 60% of brokers think it would, while just 40% don't.

Clients mostly use bridging finance in two ways, according to our survey, with 40% using it for either completing on a new purchase while waiting to sell their existing property and 40% using it to buy a property at auction. But 20% are using bridging to build their buy-to-let portfolios.

There are also mixed views in the market (see feature on page 14) on whether bridging loans have a role to play in dealing with clients' debt issues.

There are valid arguments on both sides but while 60% of the broker respondents are not seeing an increase in the use of bridging loans in dealing with cases of bankruptcy, 40% are.

"Bridging has many uses and it can be used to help people by providing funding in a hurry to stave off bankruptcy," says Andy Moody, managing director of Loanoptions.co.uk.

"But, it is not designed as anything more than temporary funding and brokers need to have a longer term funding or debt management solution sorted out before they commit their clients to any bridging deal."

By Stephanie Spicer

GOING COMMERCIAL WITH BRIDGING

The commercial sector could provide a happy hunting ground for brokers looking to provide clients with an increasingly versatile array of bridging finance solutions to their short-term cash flow problems

Nick Reeves, head of commercial lending, The Business Mortgage Company

Bridging finance is growing in popularity among brokers as it becomes more accessible. Historically, bridging loans have suffered from a poor reputation for difficulty and expense. They have often been seen as aimed exclusively at vulnerable borrowers, but this is no longer the case.

The commercial bridging market is maturing and there is now an excellent range of products on offer, providing versatility for brokers and their clients. In the present climate of restricted credit, bridging finance could also offer an additional revenue stream for brokers.

The principle behind bridging finance is to provide a timely but short-term method of borrowing funds to secure title, primarily on property, and a quick solution to otherwise stretched financial obligations.

Often, bridging finance is used to complete on a property purchase while waiting for a sale to complete or when in a hurry to complete a purchase. A typical example in the commercial property market is the use of a bridging loan when purchasing a property at auction. Here, completion is typically required within 28 days. Most bridging lenders will consider advances of 80% LTV against a variety of property stock. And 100% is possible if third party assets are factored into the equation and debt serviceability can be demonstrated.

New lenders continue to march onto the scene, increasing the variety of bridging products available, their flexibility and of course sharpening the competitive edge of pricing. Interest rates of less than 1% per month are available with low or no exit penalties. Some lenders even take a view on charging arrangement fees if the resultant term loan remains with them.

A key differentiator when deciding which bridging lender to use is the level of service provided. Most bridging deals can be transacted from start to finish within seven days – and in exceptional circumstances, just hours.

The UK bridging finance market is already worth several billion pounds and with repossession rates forecast to rise, first in line with interest rate rises and second on the back of ripples associated with the liquidity crisis, short-term financial solutions are likely to be more sought after. The bridging loans market may increase by several more billion in the medium term.

A trend developing nationwide but focussed in poorer economic areas is that of the distress purchasing of housing stock. This involves purchasing from sellers who are unable to meet their mortgage payments and would otherwise suffer the indignity of repossession and the lasting effects associated with adverse credit profiles. Such deals are transacted by players who seek the chance to buy property at below market value and sell at a profit. This market is competitive and bridging finance can provide quick access to funds.

As mentioned previously, auctions are fertile hunting grounds for bridging finance opportunities, although property type can determine the loan required. Whereas the majority of residential term mortgages can be arranged within 28 days (subject to the property being habitable and not requiring too much work), it is optimistic to expect a fast completion on a commercial or semi-commercial property bought at auction. This is primarily due to complications with land title searches, environmental concerns requiring specialist reports and in particular, legal document registration where limited company and partnership purchasing entities are involved.

When the hammer falls, a 10% deposit is immediately payable and the 28-day clock starts ticking. Failure to secure property title results in forfeiture of the deposit. Traditional term lenders advance up to 80% of the lower of the property purchase price or valuation, but most bridging lenders advance against true market value.

An area frequently overlooked by inexperienced investors diversifying into commercial or semi-commercial purchases is the VAT payable on certain property types, as VAT depends on the status of the vendor too. A number of lenders consider making allowances for this – a 100% VAT facility is sought, subject to bridging against the bricks and mortar property purchase too.

Property developers funding their projects through development finance can also be a good source of bridging loan opportunities for brokers. It is common for projects to overrun because of inclement weather, issues with supplies, poor contract performance by a builder or slow finished build sales. When such situations arise, the consequences are often serious, with high exit penalties (typically between 2% and 5%) and dramatic interest rate hikes. Bridging lenders provide a solution by uplifting these deals at lower than penalty pricing rates, and more importantly against the true market value of properties.

Commercial bridging can also provide a solution to short-term cash flow problems whereby income may be tied to a large contract or sale. Finance can be arranged quickly against a suitable property asset long before an existing banker would be able to commit support. The facility is repaid on receipt of monies owed.

Bridging finance allows property buyers to move quickly and close deals cost-effectively. It also provides a good opportunity for brokers to earn additional income – particularly important in the tough market conditions we are experiencing at present.

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