

BRIDGING

Finance

What is Bridging Finance?

What is the Process?

Important Considerations:

Points to consider before proceeding

Why use Bradley Haynes Law?

Luke Crocker
Associate Solicitor



USING BRIDGING FINANCE



Bradley Haynes Law

This guide provides a comprehensive overview of bridging finance, explaining what it is, why clients choose it, and the key factors to consider before proceeding. It also outlines the step-by-step process involved in securing a bridging loan, helping borrowers understand the requirements and potential challenges they may encounter.

What is Bridging Finance?

Bridging finance refers to short term secured loans which are used to bridge a gap in funding. The gap is often because a traditional mortgage is not available. A bridging loan provides quick access to funds to enable purchasers to complete a purchase or to enable the redevelopment of a property. Bridging loans are usually 6 to 18 months in duration.

Why Clients opt to use Bridging Finance?

There are several reasons why our clients use bridging finance, but many use them for the following reasons:

- **Speed** - The process may be quicker than using a traditional mortgage.
- **Availability** - Some lenders can offer loans to borrowers who would otherwise be unable to secure a mortgage for their project.
- **Flexibility** - High Street banks often have a standard set of requirements that cannot be amended to meet a borrower's needs. Bridging lenders can be more flexible and can tailor their offer and requirements to the borrower's project and specific transaction.

IMPORTANT CONSIDERATIONS:

Although bridging finance may offer borrowers the advantages stated above, there are several important points to consider before proceeding, including:

- **Costs** - Bridging loans involve greater costs. The Arrangement Fees, Broker Fees and Valuation Fees are often significantly higher than those associated with a standard mortgage. Most lenders will also require separate representation, and the borrower will usually have to pay both the lender's and their own solicitors' legal fees and disbursements. Some lenders will also have hidden or unusual costs.
- **High interest rates** - in almost every instance, higher interest rates are payable when compared to a standard mortgage.
- **Extensive lender's requirements** - Every bridging lender has a list of enquiries for the borrower's solicitor to deal with. They are often extensive and time consuming. Once the borrower's solicitor has provided responses to the standard set of requirements, the lender's solicitor may raise further specific enquiries about the transaction or the borrower. It usually takes a minimum of a two weeks to satisfy all the requirements.
- **Timing** - Although bridging finance is presented as a quicker option and in most cases the notice period for drawdown is reduced compared to a standard mortgage, it can often take longer to achieve completion and drawdown of funds. This is due to the extensive requirements and the additional correspondence between solicitors. The majority of standard mortgage lenders work on a dual representation basis which can make the process faster as one solicitor is acting for both the lender and the borrower.

WHAT IS THE PROCESS

Every transaction is different and poses unique challenges but a purchase using bridging finance would always involve the following process:

STAGE 1. DUE DILIGENCE:

If the transaction is a purchase:

- **Title Review** – if instructed by the borrower, we would review the Title Register, Title Plan and any ancillary title documents and produce a Report on Title for our client. This would include a summary of any rights, reservations, covenants and restrictions affecting the property.
- **Review of Contract and Supporting Documents** - we would review (and amend, if required) the Contract for Sale. We would also review the protocol forms (questionnaires completed by the seller) and draft the transfer deed (TR1 or TP1). We would produce a Report on Contract which summarises the main points of the contract and the seller's replies to enquiries.
- **Searches** - we would order an Environmental Search, Local Search and Water & Drainage Search and any other searches relevant to the area the property is located in. The searches provide vital information about the property and could identify any issues that would prevent the borrower or the lender from proceeding with the transaction. Some lenders will accept search indemnity insurance. This may speed up the process, but we would always recommend that searches are ordered if you are not governed by strict time constraints. Often lenders will accept insurance on a refinance but not a purchase transaction.

WHAT IS THE PROCESS

STAGE 1. DUE DILIGENCE, CONTINUED:

Enquiries with the Seller's Solicitors - based on the above due diligence, we would raise additional enquiries with the seller's solicitor to ascertain as much information as we can about the property and any potential issues.

If the transaction is a re-finance, we would liaise with the lender's solicitor as to their due diligence requirements and then request information from our client (the borrower) and/ or third parties, for example a search provider, or the local authority, to satisfy those requirements.

If the transaction is a re-finance, we would liaise with the lender's solicitor as to their due diligence requirements and then request information from our client (the borrower) and/ or third parties, for example a search provider, or the local authority, to satisfy those requirements.

STAGE 2. DEALING WITH LENDER'S REQUIREMENTS:

Every lender has different requirements. We would work through them as quickly as possible, obtaining any required information from the seller's solicitors or our client, the borrower.

STAGE 3. REPORTING ON SECURITY DOCUMENTS:

- The Lender would issue an offer letter (sometimes referred to as a facility letter) or loan agreement, which sets out the terms of the loan including the loan amount, interest rate and repayment terms and conditions.

WHAT IS THE PROCESS

STAGE 3. REPORTING ON SECURITY DOCUMENTS (CONTINUED):

- The lender will require a mortgage deed or legal charge, which is registered against the title of the property to secure the loan following completion.
- If the purchaser is a company, the lender may also require a debenture over all the assets of the company, as well as personal guarantees from each of the directors. The solicitor acting for the company/ borrower cannot advise the directors on the personal guarantees, as there would be a conflict of interest. Some lenders will allow the directors to seek independent advice on the guarantees from another solicitor within Bradley Haynes Law. If not, they will need to seek advice from another firm.
- We would review the security documents and provide the borrower with a written report summarising the most important terms. We would then have a meeting with the borrower in person or over videocall to provide oral advice on the documents. Lenders will often require the security documents to be signed during this meeting.

STAGE 4. PRE-COMPLETION:

- We would arrange for the Contract, Transfer and security documents to be executed and returned to us or the lender's solicitor, in readiness for completion.
- We would carry out the pre-completion searches and complete any ancillary work required to facilitate completion of the transaction.

WHAT IS THE PROCESS

STAGE 3. REPORTING ON SECURITY DOCUMENTS:

- The lender will require a mortgage deed or legal charge, which is registered against the title of the property to secure the loan following completion.
- If the purchaser is a company, the lender may also require a debenture over all the assets of the company, as well as personal guarantees from each of the directors. The solicitor acting for the company/ borrower cannot advise the directors on the personal guarantees, as there would be a conflict of interest. Some lenders will allow the directors to seek independent advice on the guarantees from another solicitor within Bradley Haynes Law. If not, they will need to seek advice from another firm.
- We would review the security documents and provide the borrower with a written report summarising the most important terms. We would then have a meeting with the borrower in person or over videocall to provide oral advice on the documents. Lenders will often require the security documents to be signed during this meeting.

STAGE 4. PRE-COMPLETION:

- We would arrange for the Contract, Transfer and security documents to be executed and returned to us or the lender's solicitor, in readiness for completion.
- We would carry out the pre-completion searches and complete any ancillary work required to facilitate completion of the transaction.



Bradley Haynes Law

Let's Work Together

Our Commercial Property Team has specialist lawyers who have considerable experience in dealing with bridging finance and other complex transactions for investors.

We work proactively and at a pace to enable completion of the purchase / re-finance as soon as can reasonably be achieved.



www.bradleyhayneslaw.co.uk



luke@bradleyhayneslaw.co.uk



01905 900 919

