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Last updated March 11 2011 12:01AM

As new lenders target buyers anxious to clinch a housing deal, we consider the pros and cons of temporary finance

In a property boom, when houses are selling within weeks and lenders are rushing to offer competitively priced mortgages, the risky bridging loan is usually shunned. But during the ups and downs of the past few years, brokers say, bridging loan providers have upped their game and new lenders have appeared in droves, including Tiuta and Omni Capital (a joint venture between Christian Candy's property business the CPC Group and Mortgage Centre IFA), which recently made headlines for appointing Liz Locke, a contestant on*The Apprentice*, as its business development director.

Melanie Bien, director of Private Finance, the mortgage broker, says that new players are responding to increasing buyer demand because there is so little housing stock available. "There are not many properties about at the moment and it is also taking vendors a while to sell. So when people see something they want, many feel that they need to grab it even if they haven't yet sold their existing property."

But what are the risks involved with temporary finance? And are ordinary buyers even eligible? We answer your questions below.

What exactly is a bridging loan?

It is a loan you can obtain from a specialist lender such as Drawbridge Finance or a private bank. Usually, it is to bridge a temporary gap in your finances, such as when someone finds a buyer for his or her house but will not complete before moving into a new one.

Bridging loans can either be closed (for homebuyers who have already exchanged on the sale of their existing property) or open (for buyers who have not yet found a buyer for their existing property or may not even have put it on the market). Loan sizes range from about £50,000 to £15 million, though you can often borrow considerably more if you are an experienced property investor or developer and negotiate via a broker.

Can I get one?

Bien says that eligibility for bridging loans, particularly closed ones, is slightly less tough than for regular residential loans. "Demand is higher at the moment,

so new lenders have appeared and old lenders are keener than ever to offer these types of loans. Because rates are higher than on regular loans, lenders can make quite a lot of money from them."

Provided that you can show an exit plan, you should not have any difficulty. Obtaining an open loan can be harder, though. The lender will want to be sure that you can afford the repayments on the bridging loan and your existing mortgage simultaneously. It will also expect you to have plenty of equity in your old property.

Will it take long to obtain?
Bridging finance normally takes about a week to be confirmed, but brokers can often secure a loan within 48 hours for urgent cases, such as for houses bought at auction.

How long will it last?

Most lenders put a 12-month limit on an open bridge. After that, they will probably renegotiate, as long as you have paid the interest during the period and the property market has not collapsed.

What rates can I expect to pay?

Rates have not changed in the downturn, but Aaron Strutt, of Trinity Financial Group, says that some lenders will lower the amount that they charge to attract particular clients. Generally, however, rates for normal borrowers from specialist lenders are between 1 per cent and 1.5 per cent a month. So if you were borrowing £300,000 and were paying a rate of 1.25 per cent, you would pay £3,750 a month. Tiuta, which entered the market last year, has a rate at 0.89 per cent for up to 70 per cent loan to value, within the M25. If you get a bridging loan from a private bank, rates are often much less and similar to residential mortgage rates, at about 4 per cent a year.

Isn't it risky?

The short answer is yes. Bien says: "I would really struggle to advise someone to take out an open bridge, because the payments are so high and you have no idea of knowing when they will end."

If property prices fall drastically, the lender may also try to renegotiate the loan terms. On the other hand, closed bridging can help if you have a property that you might otherwise struggle to sell. For example, Bien says, if you have a property with an old kitchen, or no kitchen at all, you may struggle to get a

mortgage. “Bridging finance may raise the cash for the kitchen that will enable you to sell the property at a significant profit,”she says.

How can I limit the risk?

Shop around for the best deal. There are about 40 lenders (excluding private banks), ten of whom do the bulk of the business. Check the arrangement fees and/or redemption charges, aim for a maximum term of six months and find out whether your lender is regulated by the Financial Services Authority because many are not (Cheval and Masthaven are examples of regulated providers).

Also, consider whether there are any other options. For instance, you may be able to rent out your present property until the market improves — but make sure that you can switch to a buy-to-let mortgage. Some homeowners have even been known to pay the owners of the house they want to purchase to take it off the market until they can afford to buy it, since this can work out cheaper than a bridging loan.