FINANCE

Averting disasters

Bridging can be an investor's best friend or an expensive endeavour. It's all in how you approach it, as Kevin Wright explains.

Bridging finance gets a lot of bad press. Some property investors experience a sharp intake of breath when you mention it, usually followed by exclamations of "Oh, that's really expensive!"

If you're buying a main residence, then yes, it can indeed be expensive. But if you know what you're doing, it's an intelligent method of financing property investments. And that's the problem: using bridging finance without knowing what you're doing is a recipe for disaster – like putting a ten-year-old driver at the wheel of a high-performance sports car with no instruction.

If you try to do your own bridging finance without the advice of an experienced broker, your risk increases dramatically. With an expert on board, however, you can change the way you manage your investments to make much higher profits.

The secret is in knowing your bridgers. As you're almost certainly aware, mortgage lenders will lend up to 75% of your purchase price on a buy-to-let. That means you need 25% of the cost of the property as your deposit, and then it's locked in for at least six months (many mortgage lenders will decline any application to refinance a property until the property has been owned for six months). Most bridgers also lend on your buying price – but a handful lend on the open market value of the property.

Why is this important? If you're a good negotiator, you can bring a motivated vendor down in price (especially if you can offer completion in a month or less) and yet still borrow against the full value of the property – meaning you need less for the deposit and have more of your cash available for the refurb.

Choosing a bridger

If you're exploring bridging for the first time, how will you know whether you're getting a good deal or not? How do you know which bridger to use?

The answer is you don't – unless you have access to someone with experience. That's where a good broker comes in. While there are plenty of good mortgage brokers out there, very few of them ever touch bridging lending. Even fewer do so on a daily basis, so finding someone you can trust to guide you through the process will take some digging.

A good bridging broker will know:

- Which bridgers lend in specific geographical areas (bridgers are certainly not like mortgage lenders, who lend UK-wide).
- What the minimum loan thresholds are. Most won't lend on a property worth less than £50,000, but for some the minimum will be £100,000, £250,000, or even £1m.
- Which bridgers will finance commercial property (lots don't).
- How to get finance for land purchases (very few bridgers lend on land).
- Which mortgage lenders also offer bridging and will flip into a buy-to-let mortgage after refurb (although they will still lend against the purchase price – not the value of the property). This is sometimes referred to as bridge-to-let lending.

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What can you do with bridging finance that you can't with a buy-to-let mortgage?
With the right solicitor, you can go from "offer accepted" to completion in less than 28 days.

- You can buy properties with very little of your own money stuck in the property – which gives you much more flexibility.
- You can potentially negotiate a much lower purchase price than the actual market value against which you borrow, effectively reducing your deposit from 25% to more like 10% and enabling you to buy higher-value properties. For example, with cash on hand of £50,000, your ceiling without bridging finance would be £200,000 – driven by your available cash for a deposit (with the balance of £150,000 being obtained from a buy-to-let mortgage). Using bridging finance could raise your buying power to include properties with fair market value as high as £500,000.
- You can buy properties at auction or repossessions, and complete the transaction in the short timeframe demanded – usually 28 days. The longer process of setting up a buy-to-let mortgage just can't meet that time constraint.
- You can turn otherwise unmortgageable properties into profitable investments. More of these are available than you might think, but the majority of mortgage-dependent investors never even consider buying them.
- You can refurb a property *before* you complete – and borrow against the post-refurb value. This option is great for closing deals with little or no money left in after refinancing.

For a serious property investor, these are all attractive opportunities – as long as you know what you're doing with bridging finance. So, am I recommending bridging finance as a valuable tool? Absolutely.

Do I think you'd be wise to learn to use bridging without the help of an experienced broker? Only if you already have a big pot of money you don't mind losing.

1. Finding the right bridgers takes a lot of time and research.
2. Building relationships with them takes more time.
3. You don't know what you don't know, and mistakes are bound to be costly.

The lesson in all of this is that making bridging finance work for you depends on finding a brokerage that has the experience you need and letting them keep you on the right track. Think of it as giving that ten-year-old a highly experienced driving instructor!

CONTACT POSITIVE PROPERTY FINANCE

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