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FIRST CAPITAL TRUST DEEDS

REASONS TO USE A BRIDGE LOAN

Before you dive into your bridge loan search, it's worth understanding more about the areas where they prove useful. By exploring them, you can decide whether a bridge loan is right for you.

According to the National Real Estate Investor, there was a surge in the number of people taking out bridge loans in 2017. One of the primary reasons for this is that mainstream lenders are tightening their lending criteria. When investors with a need for finance find themselves closed off from conventional lending methods, their need to invest doesn't go away. Instead, they must find alternative means of financing their projects.

Bridge loans act as an alternative financing method. In most cases, these loans last between one and five years, with the lending period varying according to circumstances. They often have higher interest rates than mortgages and are made against other properties you own. However, when you use a bridge loan appropriately, the risks that many people worry about dissipate.

Before you dive into your bridge loan search, it's worth understanding more about the areas where they prove useful. By exploring them, you can decide whether a bridge loan is right for you, or whether it's better to wait for conventional lending avenues to become available again.

LAND BRIDGE LOANS

There are many reasons why you may want to acquire land using finance. New development projects, expanding a farm, or obtaining more space for an existing business are just some of them.

As BankRate correctly states, finding a mortgage for land is trickier than it is for an existing building. Land is seen as a risky investment by major banks for the following reasons:

- If the person buying it is yet to develop the land, there's no assurance it will generate the income they need to meet repayments.
- Without an existing property, land is more likely to be abandoned by the person who purchased it.

- Unlike existing property, land is also difficult to sell.

In such circumstances, you may find that a bridge loan is available on a buy-and-hold basis. Such loans usually last for two years, with an upper interest rate of 11%. Depending on the lender, you may not need to prove a minimum FICO score. However, you will need to demonstrate how you intend to use the land and your business plan for developing it.

BRIDGE-TO-CONSTRUCTION LOANS

Although bridge-to-construction loans aren't as commonplace as other types, they can fill a gap while you're waiting for credit to become available. They often prove useful when you need to finance a contractor's work, but the prospective closing period from your bank could negatively impact your project's progress.

In such cases, a one-year loan proves efficient. They often close within 3-14 days, so you can push ahead with a project. When you see your ROI, you can end the loan.

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BRIDGE-TO-CLOSE LOANS

In the fixing and flipping industry, closing quickly is crucial. With the right amount of research, you can identify a property that, after refurbishment, will result in significant profit. The problem is, there are other investors examining the same property.

In such instances, using a bridge to close loan allows you to secure the deal so that you can press head with redevelopment. This is a common practice among those fixing and flipping in desirable or up-and-coming areas. According to Realtor.com, it takes between 45 and 60 days on average for a mortgage to close. If you don't fall into a traditional lending category, you could be waiting even longer.

Both one- and two-year loan periods complement the use of a bridge-to-close loan. They provide you with enough time to fix and flip, allowing you to make a profit before the final repayment period. Before using one, it's worth conducting a full appraisal of how much it will cost for you to redevelop the fix and flip property, as well as several potential economic outcomes if the market changes. By making an informed decision, you could access finance in as few as three days, beating your competitors to the finish line.

PAYING OFF CURRENT LENDERS THAT WON'T EXTEND A LOAN

There are multiple reasons for wanting to extend a loan. Most commonly, changes in personal circumstances mean that you can't afford current repayment rates. Extending the loan will make the monthly repayments smaller, making them more affordable. However, not all lenders are open to such requests, especially if the loan is secured against assets.

Using a short-term bridge loan lasting one to two years, you can repay the loan in question. In most cases, the bridge loan you take out will have a Loan-To-Value (LTV) set against your current property. The LTV can range between 75 and 85% of the purchase value, depending on how long you need it for and whether the property is owner-occupied or not.

The lender will still require income verification. For example, a W2, 1099, and bank statements (from either business or personal accounts).

USING A BRIDGE LOAN FOR DEBT REPOSITIONING

If you have several loans that are no longer working in a complementary manner with your existing finances, you can use a bridge loan for debt repositioning. Some may refer to this process as taking out a blanket loan to cover several other loans. If the bridge loan you acquire has a lower interest rate than your existing financial obligations, it can make better financial sense in the long term.

This practice is common amongst corporations as well as personal borrowers. Similarly, those who work in property investment may discover that tidying their finances makes it easier for them to push ahead with other projects.

If you require a bridge Ioan for business debt repositioning, it can come in the form of non-owner occupied credit. However, the lender will need to see stated income, and they're also likely to need a detailed business plan.

From a consumer perspective, having a reasonable FICO score may be necessary. Proof of income in the form of a W2, 1099, and bank statements are essential. If you qualify, you may find you can access up to 85% of the purchase value of the property you're currently occupying.

Some people find that debt repositioning leads to lower monthly repayments. If your finances are currently tight, having more freedom is always an attractive prospect.

USING A BRIDGE LOAN TO AVOID BUYING A HOME WITH A SELLING CONTINGENCY

If you're depending on the sale of a previous property to purchase a new one, you may become an unattractive prospect to your future home's owner. It's not unusual for property deals to fall through, which means if the person buying your home isn't able to complete their end of the deal, your dream property could slip through your fingers. If a house is particularly popular, the seller may choose someone without a selling contingency over yourself.

If the bridge loan can cover the cost of the new property, it will allow you to buy it without putting the seller off with a selling contingency risk. To ensure you access enough cash to make your offer, you may want to consider a one-year loan.

One way to avoid this is to temporarily generate the cash using a bridge loan. If the bridge loan can cover the cost of the new property, it will allow you to buy it without putting the seller off with a selling contingency risk. To ensure you access enough cash to make your offer, you may want to consider a one-year loan.

One-year loans usually carry the highest LTV. You can access as much as 85% of your property's value and you may be able to close within three days. This allows you to make a fast offer while your property remains on the market. Once your existing house sells, you can repay your new loan.

YOU NEED TO ACCESS CASH QUICKLY

According to CEO World, families across America regularly face cash flow problems. When matters of urgency such as a non-functioning car, broken refrigerator, or flooded home arise, they can't access cash quickly to restore normality to their lives.

Bridge loans with one-year repayment periods have quick closes that are as short as three days. A such, they're ideal for tackling tough financial challenges. They can cover a high percentage of a property's purchase value, allowing homeowners to access cash by tapping into their home equity.

The usefulness of bridge loans is certainly diverse. From closing a deal on a luxury property to meeting everyday financial challenges, they can make life run smoother for those who need to act in a time-sensitive manner.