

Bridging Loans - UK - July 2016

Report Price: £995.00 | \$1611.35 | €1263.96

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“Bridging has provided a vital resource to those looking to secure immediate finance. The industry’s substantial growth over the last seven years suggests that the scope for innovation and collaboration between lenders and brokers will expand alongside awareness of how bridging finance can be useful in a range of scenarios, which will only increase growth potential.”
Lewis Cone, B2B Analyst

This report looks at the following areas:

- Will an increase in regulation help or restrict future market development?
- What can the industry do to ensure growth levels remain on the right path?
- Which areas provide the industry with further growth opportunities?

Definition

A bridging loan is a flexible, short-term loan usually secured against property, where the borrower agrees to pay back the loan plus interest by an agreed date. They are typically used to provide finance for property purchases while a borrower is awaiting the completion of a contingent sale of an existing property, or simply where other finance is scarce.

Since bridging loans are usually offered on the basis of the security and the proposed exit rather than the borrower’s ability to meet regular repayments, bridging can assist in a wide variety of situations.

The following sectors make up a large proportion of the bridging loans market and are quantified in this report:

- Residential
- Commercial
- Development
- Second Charge

The FCA defines bridging loans as property-secured loans with terms of 12 months or less. The European Mortgage Credit Directive has taken up this definition and extended it to include loans of “no fixed duration...used by the consumer as a temporary financing solution”. This will, of course, include loans secured by second charges (or third, etc.). Although both definitions refer to loans subject to regulation, they are generally used in relation to the whole market.

Other terms used in this report include:

Aggregated loan balance: The total amount of outstanding loan obligations.

Buy to let: A property that the owner has bought to rent out to tenants.

Consumer confidence: An economic indicator that gauges how consumers interpret the present economic environment and their expectations for the future.

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DID YOU KNOW?

This report is part of a series of reports, produced to provide you with a more holistic view of this market

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First (1st) charge: A 'first charge' loan refers to the loan secured by a first mortgage/charge against the security property. A first charge lender holds the senior security position in a loan. This means that should a borrower default or be unable to meet the repayment schedule, the lender is able to sell the property to get their funds back.

High-net-worth individual: A classification used by the financial services industry to denote an individual or family with high net worth. Although there is no precise definition of how rich somebody must be to fit into this category, high net worth is generally quoted in terms of liquid assets over a certain figure.

Insolvency: When an individual or business can no longer meet its financial obligations with lender or lenders as debts become due.

Liquidity: The ability to convert an asset to cash quickly.

Loan application: Document that provides the essential financial and other information about the borrower on which the lender bases the decision to lend.

Loan-to-cost: The ratio of the price paid for an asset to the value of the loan that will finance the purchase.

Loan-to-Value (LTV): The ratio of how much is borrowed compared to the value of a property.

Peer-to-peer lending: A method of debt financing that enables individuals to borrow and lend money without the use of an official financial institution as an intermediary. Peer-to-peer lending removes the middleman from the process, but also involves more time, effort and risk than general lending scenarios.

Rental return or yield: A numerical representation of the rent received compared to the value of a property or mortgage. The higher the rental return, the less paid to cover interest on home loans and other costs involved in owning an investment property, like council rates and insurance.

Rolled-up interest: Instead of interest being paid by a borrower per month or year, the interest payment is 'rolled-up' and made at the end of the loan period.

Second (2nd) charge: A 'second charge' loan refers to the loan secured by a mortgage/charge that ranks behind the first charge lender. That is, the security provided to the lender ranks second. A second charge loan will generally have a higher interest rate payable to the lender than a first charge loan as there is more risk associated with the loan for the lender. For example, if a £100,000 home has a £50,000 first charge loan, a second charge may be secured against the remaining £50,000.

All values quoted in this report are at current values unless otherwise specified.

'Net interest payments' have been used as a definition of company turnover, where turnover has not been specifically stated in annual accounts.

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Which areas provide the industry with further growth opportunities?

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Further Sources and Contacts

Trade associations

Association of Bridging Professionals

Association of Short Term Lenders

National Association of Commercial Finance Brokers

Trade magazines

Bridging & Commercial

Business Matters

Commercial Reporter

Loans Insider

Mortgage Finance Gazette

Mortgage Introducer

Mortgage Strategy

Trade exhibitions

ASTL Annual Bridging Conference 2016 - Lending in an Uncertain World

Financial Services Expo London 2016

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