RESOURCE GUIDE

Bridging Loans

Bridging Loans: Making the Move to a New Home Easier
Bridging loans are financial tools that help you buy a new home before selling your current one, making the transition between properties smoother and less stressful. Here's how you can get a bridging loan and how we can help you through the process.

What Are Bridging Loans?
Bridging loans give you the money you need to buy a new property before you've sold your existing one. They "bridge" the gap between these two transactions.

Key aspects of a Bridging Loan - **Assessing Your Eligibility**

1. **Financial Stability:** Lenders want to see that you have a steady income and can cover mortgage payments for any debt left after the bridging period, i.e. the final loan that will continue once your current home has sold.
2. **Equity:** You need to have enough equity (the value of your home minus what you owe on it) in your current property. Lenders usually require a certain percentage of equity to reduce their risk.
3. **Saleability of Your Current Property:** Lenders will complete a valuation on your current home to confirm it's estimated sale value. They consider its location, condition, and what similar properties in your area are selling for. Lenders also usually discount the current value of the property when considering bridging loans by up to 15% to factor in any potential market fluctuations and other sale costs.
4. **New Property Purchase:** Lenders may ask for details about the new property you're buying, such as the purchase price, settlement date, and any sale conditions.
5. **Bridging Term:** Generally, lenders will allow a bridging loan term of 6-12 months. This means that you would need to sell your current home within this time. During the bridging term, generally all interest is capitalised (added to the final loan at the end of the bridging term) during the bridging period so no repayments may be required during this time.
6. **Costs:** A bridging loan is usually at a much higher interest rate than a standard home loan and may also have additional upfront costs to obtain. These costs and interest charges need to be factored in when assessing your eligibility for a bridging loan which usually comes down to having sufficient equity in your current home.

Using the Bridging Loan

Bridging loans should be used specifically to buy a new property while waiting to sell your current one. Be ready to provide details about how you'll use the loan, including the new property's purchase price and related costs.

Transition Period

During the transition period, when you own both properties, banks calculate this time differently, which can affect the cost and complexity of the loan. Understanding how your bank calculates this period is important.
Bridging loans provide a flexible and convenient way for homeowners to upgrade or downsize in what is often a busy real estate market without the need to have a 'subject to sale clause'. It is important however to get the numbers right to ensure this is a feasible option for you.

Contact us today to learn more about how we can help you with bridging finance and explore new opportunities in the property market.

Example Scenario:
Alice and Chris, a couple looking to upsize, have found their dream home however they needed to sell their existing home to finance the new purchase.
A bridging loan in this scenario would look a little like this:

- ✓ Existing property value $980,000 - shaded to $833,000 (15% buffer)
- ✓ Existing home loan $375,000
- ✓ New Home Purchase Price $1.15m + Costs $70,000 (e.g. Stamp Duty)
- ✓ Funds required after settlement (for renovations/kept as a buffer) $20,000
- ✓ Interest capitalised over 12 month bridging term (no repayments) $88,000
- ✓ Peak debt = $1,703,000 (total of all of the above except existing home value)
- ✓ Peak security (current home plus new home) $2,130,000
- ✓ Maximum loan to value ratio for peak debt is 80% of the peak security
- ✓ End debt (once existing home sold) of $782k calculated as follows:
    - $1.24m funds required (purchase price plus $70k costs plus $20k buffer)
    - Less $458k sale proceeds ($833,000 shaded sale value for current home less $375,000 current home loan)

Contact us

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