Bridging loans:

Bridging the gap between buying and selling.

Loan Market

Make it *yours.*

Whether you're looking for a home with more space, less space, a new location or just for a change, a dilemma many people face is whether to buy the new property or sell the existing one first.

What if you find your dream home before your existing one sells? Or what if you sell your home quickly and suddenly need a place to live while you search for your next perfect fit?

This is where bridging loans can come *in handy.*

Content

Considering *your* options: Buy first or sell first?

When you are looking to move, one of the biggest questions is whether to buy your new home before selling your current one or to sell first and then buy. Some people can line up the settlement dates of the two properties to enable a move from one to the other, but it pays to be prepared in the likely situation that does not happen.

Both approaches have their upsides and downsides and the right path for you will depend on your personal circumstances and priorities.

BUYING YOUR NEW HOME FIRST	
PROS	**CONS**
+ **Less pressure to find a new home:** You can take your time to find the perfect property without the stress of time between homes.	- **Financial strain:** Depending on the lender, you could be paying two mortgages at once for a period, which can be a significant financial burden.
+ **Smooth transition:** You can move straight from your old home to your new one, avoiding temporary accommodation or storage costs.	- **Timeline risk:** If your old home takes longer to sell than expected, you could be stuck paying higher interest for an extended period. This could lead to feeling pressure to sell your home quickly, potentially at a lower price than you wanted.
+ **Negotiating power:** You might have more room to negotiate on your new purchase if you are not in a rush to buy.	- **Reliance on market conditions:** You are hoping your existing property sells for the price you want within your desired timeframe.
+ **Opportunity for renovations:** Having time between buying your new home and selling can give you an opportunity to complete any improvements or stage the home to optimise the selling price.	

SELLING YOUR EXISTING PROPERTY FIRST	
PROS	**CONS**
+ **Financial certainty:** You know exactly how much money you have from the sale of your old home, which helps with budgeting for your new purchase.	- **Temporary accommodation:** You might need to find a rental property or stay with family while you search for your new home.
+ **Stronger buying position:** You can make non conditional offers on new properties, which can be very attractive to sellers.	- **Time pressure:** You may feel rushed to find a new property once your old one sells.
+ **Reduced financial stress:** You avoid the worry of having two mortgages.	- **Market fluctuations:** If house prices rise quickly, the money you get from your sale might not go as far as you hoped for your next purchase.

Understanding bridging loans.

A bridging loan is a short-term loan designed to help you 'bridge' the gap between buying a new property and selling your existing one. It provides you with funds to purchase your new home before you have received the proceeds from the sale of your current property.

Think of it as a temporary financial solution that offers flexibility during a property transaction.

Types of bridging loans

There are generally two main types of bridging loans, each suited to different situations:

- **Open bridging loans:**
  These loans do not have a set end date for when your existing property needs to sell. This can offer more flexibility, but the interest rates might be higher, and there will usually be a maximum loan term, for example 12 months.

- **Closed bridging loans:**
  These loans have a specific end date, as you have typically already exchanged contracts on your existing property. This means you know when the funds from your sale will become available to pay down the bridging loan. These often come with lower interest rates due to the certainty of the sale.

How bridging loans work

Bridging loans typically work by your chosen lender taking on your existing home loan along with the loan for your new property.

Here is a simplified breakdown:

1. **Your current situation:**
   You have an existing home with a remaining loan balance.

2. **New purchase:** You find a new property you want to buy.

3. **Bridging loan application:** You apply for a bridging loan which covers the purchase price of your new home and any associated costs or fees minus any deposit you are contributing. The lender usually also takes over your existing mortgage.

4. **Bridging period:** During the 'bridging period' (the time between buying your new home and selling your old one), you usually only pay interest on the total bridging loan amount. This can help keep your repayments lower while you are carrying both properties.

5. **Sale of existing property:** Once your old home sells, the proceeds from the sale are used to pay down your existing loan and into your bridging loan.

6. **New home loan:** The remaining balance of the bridging loan then converts into your new, long-term home loan for your new property.

Understanding end debt and peak debt.

When you are considering a bridging loan, two important terms you will hear are 'peak debt' and 'end debt':

- **Peak debt:** This is the highest amount of money you will owe for the loans during the bridging period. It is essentially the sum of your existing home loan balance plus the full purchase price of your new home (minus any cash deposit you put down for the new property). You will usually pay interest only on the bridging loan.

- **End debt:** This is the amount of the loan that remains after your existing property has sold and the proceeds from that sale have been used to pay off your existing home loan and toward the bridging loan. This 'end debt' then becomes your new, long-term home loan for your new property, which you will typically pay down with principal and interest repayments.

Lenders will assess your ability to manage both your peak debt and your end debt, so it is important to have a clear understanding of what these figures look like for you.

Let's take a look at them *in action...*

Sarah owns a home valued at $700,000 with a current loan balance of $300,000. She finds her dream home for $900,000 and decides to buy it before selling her current place.

A lender approves a bridging loan for her. The total amount of the bridging loan would be:

Calculating peak debt:

- New home purchase price: $900,000
- Existing loan balance: $300,000
- Peak debt: $1,200,000

During the bridging period, Sarah would be making interest-only repayments on the $1,200,000.

Calculating end debt:

After two months, Sarah's old home sells for $700,000. This amount is used to reduce her peak debt.

- Peak debt: $1,200,000
- Proceeds from sale of old home: $700,000
- End debt: $500,000

This $500,000 then becomes Sarah's ongoing home loan for her new property.

Understanding the costs

Let's say in Sarah's example, the interest rate on her bridging loan was 7.5% per annum.

Her monthly interest-only repayment during the bridging period (on $1,200,000) would be:

($1,200,000 x 0.075) / 12
= $7,500 per month.

If her bridging period lasted for two months, the total interest paid for the bridging loan alone would be:

$7,500 x 2 months = $15,000.

Capitalising repayments:
some lenders will allow you to "capitalise" your repayments. This means you do not need to make the full loan repayments during the bridging period. The interest will instead be added to your peak debt. Keep in mind interest is charged based on your peak debt, meaning you will then be charged interest on the interest that has been added.

This highlights the importance of having a clear plan for selling your property to minimise the bridging period and associated interest costs.

What lenders consider

Lenders look at a few key things when assessing a bridging loan application. They want to make sure you are in a strong position to manage the temporary increase in your loan amount and that your end debt is sustainable.

- **Loan-to-value ratio (LVR):** Lenders generally require a 20% deposit. This means you will need your 'end debt' for your new property to be 80% or less of its value.
- **Downsizing considerations:** Lenders generally prefer bridging loans that will have an end debt remaining after the bridging loan is paid off. If you are downsizing, you may find you end up paying out your full loan - for example, if you sell your home for $800,000 and your new home costs $600,000, you would have $200,000 left over after paying for your new property. This may incur additional fees from the lender.

We can work through these numbers with you and help you understand all the potential outcomes.

Is a bridging loan right for you?

A bridging loan can be a great tool, but it is not for everyone. It is a good idea to consider your financial situation and comfort level with risk.

- **Do you have temporary living options?** Is there somewhere you could live if you sell your property first to reduce the rush to find a new property? This could also include needing storage options for your belongings.
- **Are you comfortable with higher repayments for a temporary period?** During the bridging period, you will be servicing a larger loan amount.
- **Do you have a realistic expectation of how quickly your current home will sell?** Your broker can help you assess the current market conditions in your area.
- **Do you have a financial buffer?** It is always wise to have some savings to cover unexpected costs or a longer than anticipated bridging period.

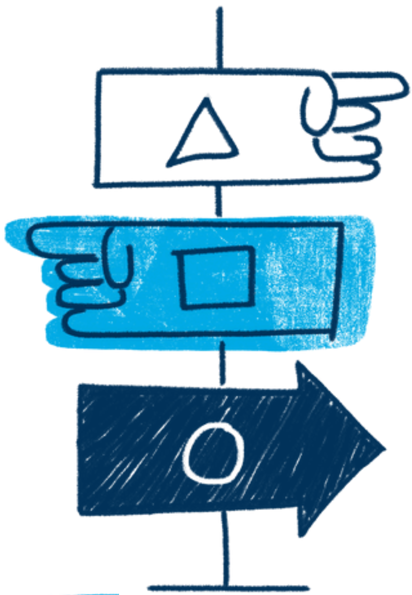
A bridging loan can offer peace of mind by allowing you to secure your new home without rushing the sale of your current one. It can also provide breathing room to make sure you get a good price for your existing property.

Why *choose* a **Loan Market broker?**

Navigating the world of home loans, especially when you are coordinating a buy and a sell, can feel like a lot of moving parts. That is where a Loan Market broker comes in. We are here to simplify the process and help you make informed decisions every step of the way.

- **We work for you:** Unlike banks, we are not tied to one lender. We work with over 60 banks and lenders to find a suitable loan for your circumstances. We are all about helping you achieve your property goals.
- **We keep it simple:** We speak in plain language, without confusing jargon. We want you to feel empowered and understand your options.
- **We tailor a solution for you:** We will listen to your needs and help you understand what your options are to achieve your goal.

Ready to explore your options and see if a bridging loan could be the right solution for your next move? Let's chat.



Ready to get started?

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