Bridging loans.

Short-term funding between buying your next home and selling your current one.

A bridging loan is a short-term loan that helps you cover the financial gap between buying a new property and selling your existing one. It provides temporary funding so you can secure your next home without waiting for your current property to sell.

One of the first questions we need to ask is – will there be an ‘end debt’ or not as this will be front of mind for any prospective lender.

How do bridging loans work?	
Closed Bridging Loan	Available when you have already exchanged contracts on your current property and have a set date for settlement, but this is after the settlement of the property being purchased.
Open Bridging Loan	Used when your property has not yet been sold. These loans are often subject to a time limit, usually up to 12 months.
During the bridging period	The loan is usually interest-only, with the balance repaid once your existing property is sold.

Benefits of a bridging loan	
Move on your terms	Purchase your next home without waiting for your current home to sell.
Avoid temporary accommodation	Stay in your current home until the new one is ready.
Interest-only payments	Manageable repayments during the transition period, subject to the lender’s terms.
More negotiating power	Potential to secure your next home quickly without conditional offers.

Things to consider

Higher interest costs	Bridging loans often have higher interest rates than standard home loans. This might mean your bridging loan attracts a standard variable rate without a discount, or it might also attract a higher default rate if the property is not sold within the agreed bridging loan period.
Short-term financial commitment	These loans must be repaid within a set period, usually within 6 to 12 months.
Market risks	If your property takes longer to sell than expected, the lender might step in to assist you with the sale of the property and a resulting default interest rate might apply.
Lender criteria	Not all lenders offer bridging loans, and approval depends on your financial situation. One key consideration for lenders is whether there will be an 'end debt'. Clearing the bridging loan in full from the sale proceeds of your existing owned property may preclude some lenders from doing business with you.

Example 1: Smooth transition between homes

Sarah and Tom have lived in their home for 10 years and have a remaining mortgage of $300,000. They find their dream home for $1,000,000 and want to buy it before selling their current property. Their lender approves a bridging loan that temporarily covers both properties.

— **Existing mortgage**: $300,000
— **New home loan**: $1,000,000
— **Total debt during bridging period**: $1,300,000 (existing loan + new home loan)

During the 6-month bridging period, they make interest-only repayments on the total debt. They sell their existing home for $750,000, using the proceeds to repay the bridging loan and remaining mortgage. This reduces their new home loan to $550,000, which they continue repaying as a standard principal and interest loan over 30 years.

Example 2: Challenges of a delayed sale

Michael and Lisa purchase a new home for $1,200,000, using a bridging loan while waiting to sell their existing home. They have an outstanding mortgage of $400,000 on their current property.

— **Total bridging loan**: $1,600,000 (existing loan + new home loan)
— **Bridging period**: 12 months (interest-only payments)

At the end of the 12-month bridging period, their property hasn't sold. Their lender switches them to a higher default interest rate, increasing their repayment costs.

To avoid further financial strain, Michael and Lisa decide to lower the asking price of their home and eventually sell for $900,000, less than they had originally hoped. After repaying their bridging loan, they have $500,000 in net sale proceeds, leaving them with a new home loan of $700,000 — a larger ongoing mortgage than they had planned for.

Example 3: No end debt

David and Toni are looking to downsize from their large family home as their kids have moved out. They are looking to purchase a more modest home in a regional area. Their family home is valued at $1,700,000 with a modest mortgage of $200,000. They have agreed to purchase a regional property for $900,000.

— **Total bridging loan**: $1,100,000 (existing loan + new home loan)

— **Bridging period**: 6 months (interest-only payments)

David and Toni are successful in selling their family home for $1,700,000 and they are able to repay the total bridging loan of $1,100,000 resulting in no ‘end debt’ and some surplus monies from the sale of their home.

Need help with anything?

Josh Stewart Principal Broker, Value Lending

0420 708 800 josh@valuelending.com.au
valuelending.com.au