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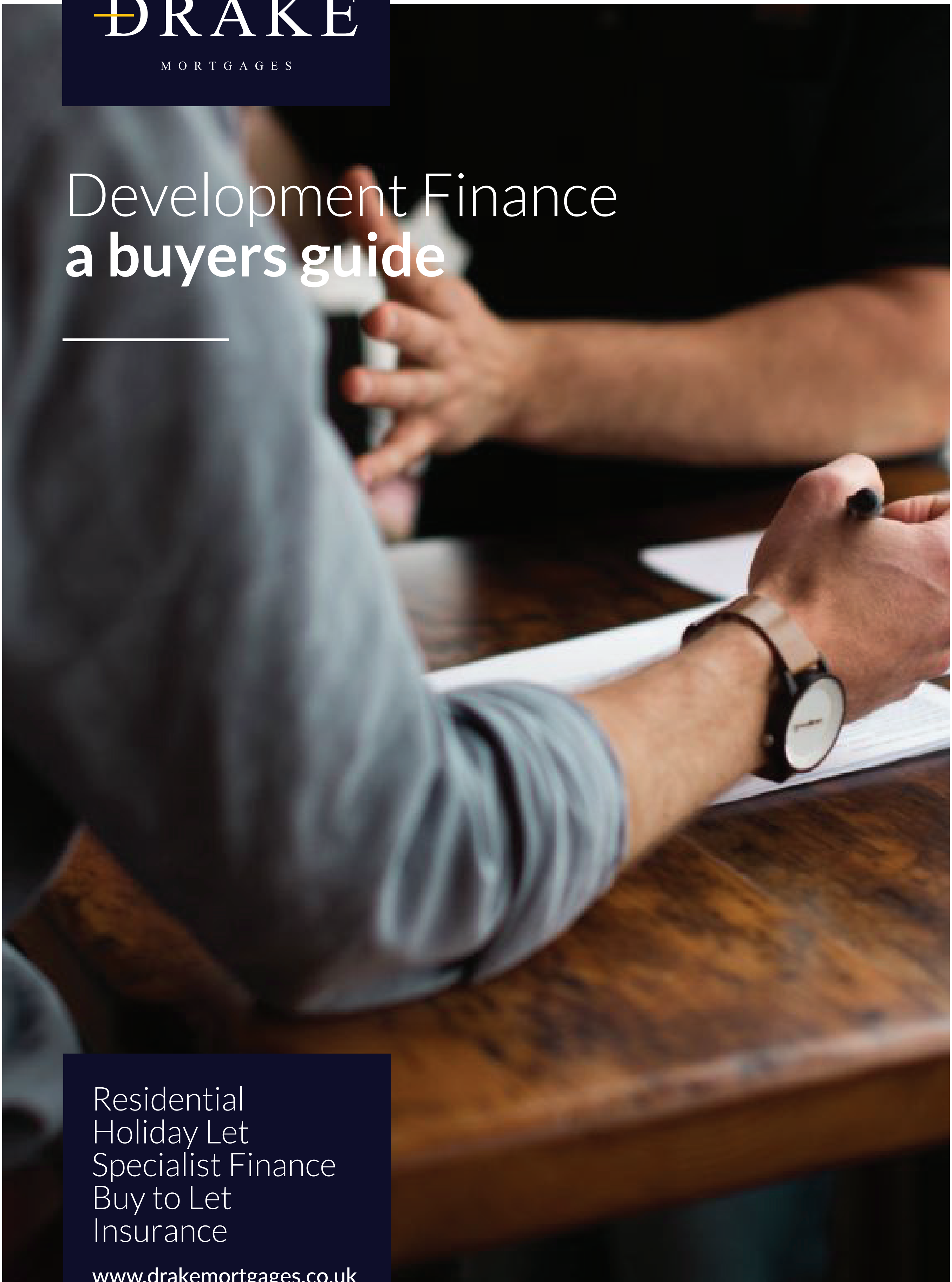

Development Finance
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Prior to “The Crash” development finance was quite easy to obtain, in fact almost too easy. When “The Crash” happened many of those loans also crashed, as much for the stupidity of the lenders as for the over-optimism of the borrowers.

Until about 2016, lenders were still feeling the effects of getting burnt and there were very few lenders in the market. That has now changed.

Is finance available for developers?

Yes, definitely.

The market for lending falls broadly into 2 sections

Conventional banks and **Development bridging lenders**

Although there are many similarities between the two, there are significant differences and obstacles and you will need an experienced broker to guide you through if you want to avoid timewasting, costly surveys and legal costs.

Broadly, the similarities between them are fees and time it takes to get the loan, but that is about all

The differences on the other hand are numerous:

- Banks tend to have much lower interest rates, sometimes only half as much as Bridges
- Banks only look at medium or large size projects
- Banks require borrowers to be professionals e.g. architects or established building companies, with track records for the type and scale of the project
- Banks tend to lend on a Loan to Cost basis. This means that you have to spend the money first before they reimburse you and they only lend on what you have spent NOT on what value you have added to the project (the latter is known as GDV lending).
- Banks will require you to put in your own cash before releasing any funds, even if you already own a site with no loans outstanding on it.

Quite simply, Bridging Finance picks up all the projects that do not fit the Banks.

There is almost always a lender to suit your project whether it is residential, non-residential or commercial; whether there is an existing building or just an empty building plot; whether it is a conversion or new build; whether it is standard construction or not.

In every case you will need to have formal planning permission in place at formal application stage. “Outline planning” is not adequate, although it is possible to get a Decision in Principle from a lender which determines the likelihood of a loan.

Some points to look out for

- Arrangement fees; usually between 1.5% and 2.5%
- Exit fees; a good lender should not charge any
- Early repayment charge: again, a good lender should charge any
- Interest rates; anything between 4.99% per annum to 16% per annum, usually expressed as a monthly rate
- Loan to Cost lending versus Gross Developed Value lending.

Frequently Asked Questions

The practicality is that most development loans end up only fitting Bridging Lenders so here are some other FAQs relating to Development Bridging Finance

Q 1: How long can you have a Bridging Loan for?

An average term in the industry would be around 6 - 12 months. Bridging loans are available theoretically for a term of one day right up to 24 months depending on lender. For larger projects taking longer there are special terms. However even for some smaller projects there is one lender that has a hybrid product that runs for 5 years.

Q 2: How is interest paid?

Interest is not paid monthly. Instead the lender all the interest due is paid at the time that the loan is redeemed. You are only charged interest on what you borrow and how long you have it. Despite the term that you stated at the time of the application, if you finish the project early and pay it back early, you will only pay interest on the amount and for the period that you borrowed the money.

Q 3: How much can I borrow?

There is no real limit to the amount but for each project every lender will have a maximum Loan to Value (LTV) that they will accept. You loan must not exceed that percentage of the value of the finished project.

There are important consequences of this. It is very important to get the term of the loan as accurate as possible when you first make the application, and then allow a safety margin. The lender's calculation of what that finished LTV may be takes account of the amount you asked for and then adds on his fees and maximum potential interest which could be added. This total loan must not exceed the maximum allowable LTV. Part of that potential interest calculation obviously includes the length of time that the money is borrowed.

Q 4: Can you extend the term of a Bridging Loan?

In order to understand the attitude of Bridging Lenders we need to review the purpose. Bridging Loans are a short-term, secured lending facility; they are not intended to run for long periods of time and the lenders do not like to lend for long periods of time. They believe that their risk is reduced by lending out then receiving back and then lending to someone new. Thus, whatever prompts a request to extend the term of their loan has to have sound rationale.

Loan term extensions can be anything from a couple of weeks to several months. Whatever the requested extra term, the consequential extra interest when added to the existing total facility cannot exceed the lenders maximum allowable LTV.

Having said that, it is not unusual for lenders to receive requests for bridging loan term extensions. They are considered on merit but are not usually refused. The reason is that the lenders want to see a finished project in order to get their money back rather than have to deal with something half finished. The issue is what they are going to charge you for this
(see Q 5 below)

For property development and restoration projects it is recognised that that there can be problems beyond the control of the developer. It is important to state that lenders like nonetheless for there to have been an amount of contingency planning in the initial loan application covering both time and costs – this is seen as prudent and professional.

A term extension request will trigger revaluation. This of course comes at an extra cost to the borrower.

Some of the most common reasons why a bridging loan term extension is requested, include:

- Local authority inspections and matter arising. Although this should all be covered when the planning permission is granted, it is not unheard of for local authorities to be slow if alterations are required.
- Weather
- Unforeseen costs e.g. movement in costs of raw materials, technical building issues
- Problems dealing with contractors and possibly having to replace them.
- Latent issues unforeseeable at outset with groundworks, including the need for specialist reports
- Delays with the planned bridge exit strategy e.g. sale or refinance

Q 5: Can I borrow extra money on a Bridging Loan?

Yes, but as explained above, it is not just a question of having a good reason to do so, but the extra borrowing plus interest payable thereon has to fit the maximum allowable LTV

Q 6: How much will my bridge extension cost?

Anything that alters the original contract causes the lender to worry, even if you have given a good reason and you will have to pay for how worried they are. If you want to change the original contract by either asking for more or asking to extend the term, then that original contract is finished, and so new terms will apply, provided of course they are happy to offer new terms. If not, the lender is at liberty to demand payment or to repossess your property and sometimes this happens if the lender is unhappy with how you have organised things and what has happened. However, this is rare. Usually a lender will simply roll on the existing terms, especially if the maximum allowable LTV will not be breached by your request. If on the other hand the LTV is close to being breached, they are likely to offer penal interest rates and fees. These can be double or treble the interest rate in the original contractual.

The lender will almost always charge an additional arrangement fee.

Q 7: Can you repay an existing bridging loan, using another bridging loan?

The answer is yes, but a qualified yes. This is sometimes known as a re-bridge loan must be considered a rescue strategy. It your current lender will not agree to any extra funds or term extensions then the opportunity exists to finance and possibly restructure a bridging loan. Until fairly recently, there were very few lenders in the re-bridging market, however due to a growing need, this has all changed.

It is usually cheaper, easier and quicker for borrowers to negotiate with existing lender first, if it's reasonably certain that the issue requiring an extension of term can be resolved within the new term.

Be prepared that lenders in the re-bridge market will consider refinancing a development or restoration bridging loan but will employ an extra high level of due diligence when assessing the developer's strategy for successful completion of the project in terms of both time and cost and the achievability of the exit strategy.

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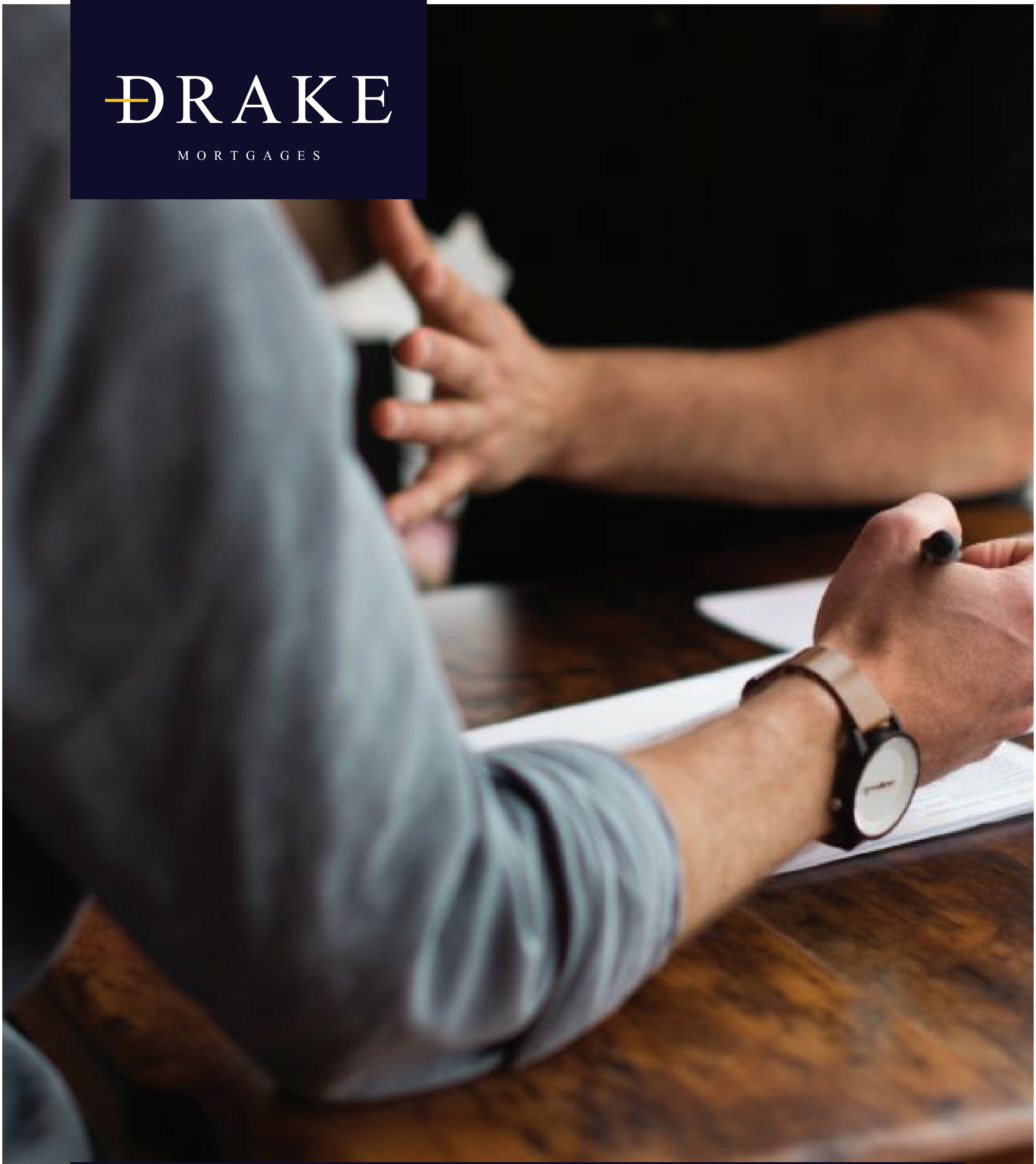

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