

### Refurbishment Bridging Loans – frequently asked questions

<i>Question:</i>	<i>What is a refurbishment loan?</i>
Answer:	A short-term loan to purchase and/or refurbish a property.
<i>Question:</i>	<i>How does this loan usually work?</i>
Answer:	<p>Normally, three calculations are considered:</p> <ol style="list-style-type: none"> <li>1. The current value or purchase price of the property</li> <li>2. The cost of the work being undertaken</li> <li>3. The value of the property when improvements are finished, referred to as the GDV (gross development value)</li> </ol> <p>A lender will agree to lend an amount based on the GDV, and an amount based on the purchase price or value. The difference between these two figures may be lent to cover up to 100% of the works costs which will be offered as a facility at the commencement of the loan then drawn in stages as you carry out the work, improve and add value to the property. These figures are agreed and confirmed by an inspection carried out by a professional valuer instructed by the lender.</p>
<i>Question:</i>	<i>What happens when the refurb is completed?</i>
Answer:	Usually, you would sell or refinance on to a longer-term loan and repay the refurbishment loan.
<i>Question:</i>	<i>Can I take a normal mortgage or buy to let loan to carry out a refurb?</i>
Answer:	Yes, for light refurbs, this may be possible with selected lenders.
<i>Question:</i>	<i>What is a light refurb?</i>
Answer:	You would have to inform the lender of your intentions and provide details of the works planned. Usually this would not involve any major alterations or changes to the structure of the building, it may require a cosmetic upgrade and perhaps minor improvements, such as a new kitchen or a new bathroom.
<i>Question:</i>	<i>How does it work if major refurbishment is required?</i>
Answer:	This could be referred to as a heavy refurb or a development loan - planning consent may be needed for structural work, extensions or changes to the fabric of the building. The lenders may provide an additional lending facility or restructure a loan post planning consent to allow such a facility.
<i>Question:</i>	<i>Are the rates the same for light and heavy refurb products?</i>
Answer:	No, expect rates for heavy refurb to be a bit higher and loan to value potentially lower to reflect the extra risks the lender would be taking. Reinspection of the property will be required throughout the project as you request drawdowns of the facility.
<i>Question:</i>	<i>What happens if the project overruns?</i>
Answer:	This is where careful planning is required if you want to avoid extra costs. Keep the lender informed if any problems arise. If you are applying for planning consent, make sure you have a plan 'B' if this takes too long or consent is rejected. Allow extra time to try and cover such eventualities when setting up the loan at the beginning. Some lenders can impose heavy fees or severe penalty interest rates if the loan is not paid on time, make sure you are aware of these. The lowest interest rate on offer may not always represent the best deal for you if you don't get this right.
<i>Question:</i>	<i>What fees might I have to pay?</i>
Answer:	<p>These will vary from case to case, this list is not exhaustive and <u>may</u> include the following:</p> <ul style="list-style-type: none"> <li>• Lenders arrangement fees, typically 1 to 2 % of the total loan granted</li> <li>• A broker fee <u>may</u> be charged</li> <li>• Insurance fees and/or title insurance</li> <li>• Lenders administration costs</li> <li>• Lenders legal fees</li> <li>• Valuation fee – plus re-inspection fees if these are required</li> <li>• Stamp Duty Land Tax</li> <li>• Exit fees.</li> </ul>

<i>Question:</i>	<i>How is the interest calculated and charged on the loan?</i>
Answer:	Interest rates will vary and may be based on the complexity, the risk to the lender, the size and the term of the loan. Rates for short term loans start at around 0.4% per month or can be 1% or higher. Interest can be paid monthly referred to as servicing the loan. The interest may be borrowed from the lender and paid in full on settlement of the loan, referred to as retained or the interest can be added to the loan and paid on settlement of the loan referred to as rolled up. It could be one or, a combination of the above and may be referred to as part serviced/part rolled.
<i>Question:</i>	<i>How much can I borrow?</i>
Answer:	Amounts will vary from lender to lender, usually determined by the value of the property. Income may need to be considered if the loan is regulated and/or being serviced. Typically, loans may be offered up to 75% (85% on some light refurb products) on residential property and 70% if there is a commercial element. Most lenders will lend against the purchase price, some may lend against the market value and some may do this but cap the loan based on the purchase price. Loans may be offered against part or all of the refurb costs.
<i>Question:</i>	<i>Do I need to have any experience of refurbishing property?</i>
Answer:	Yes advisable, most lenders will ask you to evidence your past experience.
<i>Question:</i>	<i>Do I need an income?</i>
Answer:	Yes, if the loan overruns you may have to service the debt from income.
<i>Question:</i>	<i>What are Bridge-to-let loans?</i>
Answer:	These are loans offered where the long-term loan (the BTL) and the short-term loan (the bridge) are applied for and underwritten by the lender at the same time. They release part of the funds to purchase the property then the remainder when the refurb is finished. You will still need a deposit; they will not lend 100% to purchase the property unless you have additional security. These products are usually only available for light refurbs.
<i>Question:</i>	<i>How long do I have to own the property before I can re-mortgage to a buy to let?</i>
Answer:	1 day. Many lenders will have a "6-month rule" but not all.
<i>Question:</i>	<i>What would lenders normally ask for when applying for a refurbishment loan?</i>
Answer:	Again, it will vary on a case by case basis but typically: <ul style="list-style-type: none"> <li>• Application (all borrowers or parties to the loan)</li> <li>• Proof of ID and address</li> <li>• Good credit profile (credit report)</li> <li>• Proof of deposit and where funds held</li> <li>• Statement of assets and liabilities</li> <li>• Schedule of works and timescales</li> <li>• Planning permission (if applicable)</li> <li>• Exit strategy</li> </ul>
<i>Question:</i>	<i>How do I start the process?</i>
Answer:	Complete a Fact Find/enquiry form which can be found on the website: <a href="http://www.wpfinanceme.com">www.wpfinanceme.com</a> and return to <a href="mailto:admin@wpfinanceme.com">admin@wpfinanceme.com</a> .

We cannot answer all questions for all possible scenarios. Above are the most common. If you are looking to purchase and need a quote, get in touch.

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*Residential \* Buy To Let \* Bridging Loans \* Commercial Finance \* 1<sup>st</sup>, 2<sup>nd</sup> Charge*

First Floor, Media House, 3 Threshelfords Business Park, Inworth Road, Feering, Essex. CO5 9SE.

t: 01206 586580

f: 0800 066 4096

e: [brokers@wpfinanceme.com](mailto:brokers@wpfinanceme.com)

w: [www.wpfinanceme.com](http://www.wpfinanceme.com)