

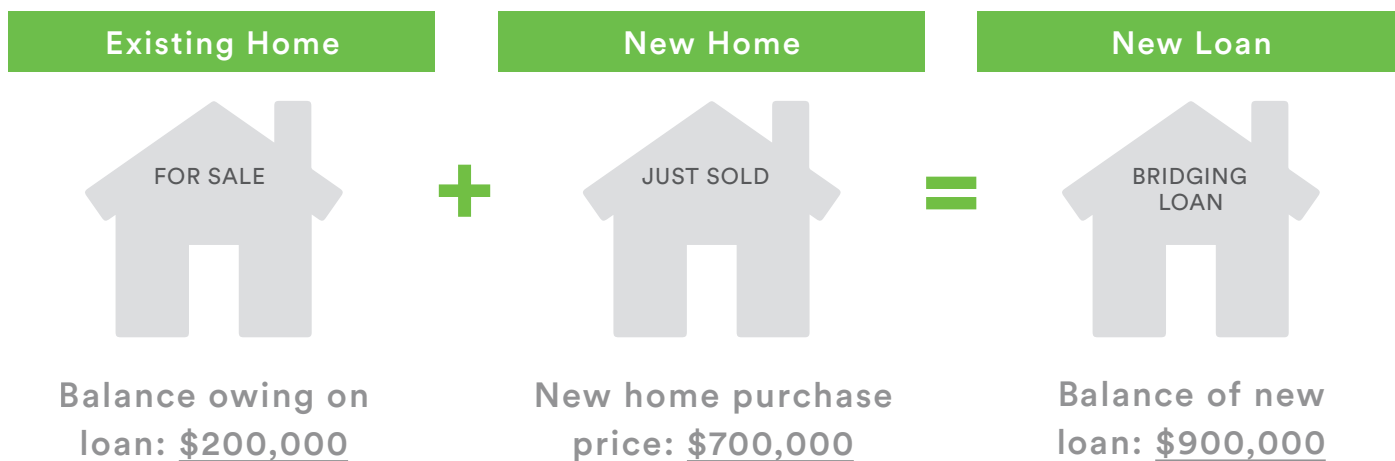
Bridging Loans; What are they and how do they work?

You're pre-approved for a home loan, you've found the property of your dreams and you're ready to make an offer, you're excited! That is, until you realise that without a buyer for the property you're vacating, the funds won't be available for you to push the button - much less excited.

Fear not, there is a solution that might be suitable to your circumstances which will allow you to make your move.

By taking out a bridging loan, you can make a move on your dream property without having the funds immediately available.

Purchase process example:



The bank will now give you a loan for the \$700,000 you require, plus any costs you need.

A typical lenders calculation



Total Loan amount: \$200,000 + \$700,000 + (\$35,000 in estimated costs) = \$935,000
Compounding interest over a six month period = \$10,832
Total debt: \$935,000 + \$10,832 = \$945,823
Less the sale of your existing home at \$500,000
Equals a total estimated debt left over of \$445,823

Sales process example:



Bridging Loans; Continued:

From this point on, the loan moves to a standard mortgage product with regular repayments.

Whilst bridging loans can be extremely useful, there are a few things to consider before you head down this route.

- Bridging loans are interest only loans, which means should there be delays or complications during the sale of your current property, you could end up paying more interest than you anticipated. It's important to have the sale of your current property in full swing before you take out a bridging loan.
- Your borrowing capacity for a bridging loan is based on the likely sale price of your existing. Whilst the market may be strong, sale prices are never a sure thing. If your property sells for much less than you anticipated it could leave you with not only a larger debt, but a debt that is no longer on hold and is incurring principal and interest repayments, just the same as any other mortgage.
- Due to the nature of a bridging loan, during the bridging period you will accumulate interest at a higher rate than a typical mortgage product. This can have great impact if complications do arise and the bridging period is extended.
- As with any other loan or mortgage, there are additional expenses to consider including stamp duty, application fees and often, additional valuation costs.

Bridging loans can be a great tool. They can be a means of securing your dream property when all else has failed. However, it's extremely important to consider the potential risks at play before moving in this direction. Without achieving sufficient equity in your existing property to repay the bridging loan, you could be stuck paying off two mortgages or higher rates of interest due to unforeseen delays.

Luckily, your Peasy broker is here to support you through every step of the process and explain the pros and cons, specific to your situation.

Peasy broker notes:

Total Loan amount = \$ _____ + \$ _____ + \$ _____ (Costs) = _____

Compounding interest over a six month period = \$ _____

Total debt: \$ _____ + \$ _____ = \$ _____

Less the sale of your existing home at \$ _____

Equals a total estimated debt left over of \$ _____