

## WHAT IS A BRIDGE LOAN?

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Bridge loans are essentially short-term loans used until a company or person can secure permanent financing or **remove an obligation**. These loans allow you to meet your current obligations by providing you with immediate cash flow. Bridge loans are only short term, up to one year.

They are also usually equipped with high-interest rates that are backed by a form of collateral. The collateral is usually in the form of real estate or inventory.

### How Do Bridge Loans Work?

Bridge loans are often referred to as bridging loans, interim financing, gap financing, or swing loans. They essentially bridge the gap when financing is needed but not available at the current time. Hence the name bridge loan.

These types of loans can be customized for different situations. They help homeowners [purchase their new home](#) while **waiting for their previous one to sell**.

Borrowers use the equity in their current home as a down payment for their next home. They also help commercial property investors purchase new property without having the financing needed on hand.

These loans are fantastic for allowing a little extra time which results in peace of mind. While these loans are often accompanied by a higher interest rate, they are the only choice for some people. Compared to other options, they are a rather good choice.

They are often made with a clear exit plan along with how the borrower is going to actually pay off the loan. Lenders will consider many things before providing you with the loan.

### Bridge Loans in Residential Real Estate

Bridge loans are extremely common in THE REAL ESTATE INDUSTRY. Often, if a buyer has a large period between purchasing a new property and selling the other, they will opt for a bridge loan.

Usually, lenders will only consider bridge loans in real estate to borrowers who harbor an excellent credit rating. Low debt-to-income ratios are also helpful. With these loans, buyers are offered flexibility as their old house is waiting to sell. In this instance, bridge loans **combine the mortgages of both houses**.

## Commercial Real Estate Bridge Loan Use

Commercial bridge loans can be used by REAL ESTATE INVESTORS, other commercial borrowers, and developers in circumstances such as:

- Cash-out to finish a financially exhausted construction project
- Refinancing an expiring term balloon loan for a permanent loan that is more favorable
- To stabilize a multifamily property to qualify for a permanent loan
- Making repairs in the short term with cash-out so that properties will qualify for commercial bank loans
- Carry a subdivision development until homes are able to be sold

## Bridge Loan vs Traditional Loan

When it comes to bridge loans, you will find that they have a far faster application process. Approval and funding are also far faster than traditional loans. However, what they have in convenience, they lack in other areas.

Bridge loans often have short terms, high-interest rates, and inflated origination fees. Borrowers usually just accept these terms because they need access to funds in a quick manner. They are happy to pay the **inflated high-interest rates** because of the short-term nature of the loan.

It is also favorable because THEY CAN PAY IT OFF with low-interest, long-term financing quicker than usual. Most bridge loans also don't have repayment penalties which is why they are so popular.

## Common Types of Bridge Loan Financing

Bridge loans aren't a one-size-fits-all type thing. In fact, they come in all types of forms. However, certain scenarios are far more common than others.

Some of these include, but are not limited to:

- Non-recourse loans from 8% up to 75% LTV
- No FICO or foreign nationals up to 75% LTV
- Bridge loan rates between 6.99% to 8% for loans up to 60% LTV without a prepayment penalty
- Non-recourse payments starting at \$5M with interest-only payments
- Bridge loans on multifamily, retail, office, industrial, hospitality, and mixed-use commercial real estate
- Interest-only, fixed-rate payments
- Customized bridge loans that meet business requirements
- Six-month term loan from 85% LTV from \$3M to \$100M

If you [need a bridge loan](#), the aforementioned information should help you find the **right option for your situation**.