

A GUIDE TO

CHAIN BREAK FINANCE



Part of **HOWDEN**

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What is a property chain?

A property chain is a sequence of property transactions which rely on one another to fund the sale of each property. Therefore, one property purchase falling through can cause a breakdown in the chain and leave one or more of the buyers stuck without funds to complete on their onward purchase.

The collapse of a property chain can be incredibly frustrating for those purchasing a new property as it can significantly impact the rest of the chain. It may leave other sellers unable to fund their original plans if they cannot sell their property.

The top four reasons why a property chain breaks

1) The sale does not complete on time and it falls through

A standard residential mortgage can take, on average, according to Zoopla, 12 weeks. Property investors often do not have this much time to complete on a property they are looking to purchase.

2) The buyer pulls out

Sometimes, buyers pull out. This could be due to the buyer not being able to obtain a mortgage, they may have found a different property, or perhaps they have concerns with the property that they are not willing to accept. Whatever their reason, it can put you, the vendor, in a compromising position as you may be committed to your onward purchase and do not, of course, wish to lose out.

3) Time taken to administer a full mortgage application

Taking out a traditional mortgage has a lot of boxes that need ticking during the application process. During this time, minor discrepancies can cause delays for mainstream lenders; it could even halt the application process whilst everything is checked.

4) You cannot sell your property

If there is an issue with your property you may need to refurbish or renovate parts or all of the property to entice new buyers. This can be a long process and can add pressure for you and your sellers.

How can a bridging loan be utilised in this scenario?

A bridging loan can be used to 'fix' the broken chain. It allows you to quickly access the required funds, to help you continue with a property purchase, even if you have not been able to sell your current property.

A bridging lender will provide a loan secured against the current property which is typically for a 12-month period. This means you can continue with your purchase and provides you with some breathing space to sell your current property.

Another use for bridging finance could be to use this to purchase your new property and then remortgage on to a standard residential mortgage if there is a time pressure; for example, due to the length of time a standard residential mortgage application takes to complete. You should be aware that most lenders require you to have owned the property for at least six months before being able to remortgage, meaning you will have to have the bridging loan for at least this period of time.

What is required to agree a chain break bridging loan?

Chain break bridging loans are faster to arrange than a standard mortgage, so you receive the money you need quickly.

For chain break loans there is an option to secure the bridging loan against more than one property; for example against your current property and the property you are buying. An advantage of this is that the lender has greater security and will consider a larger loan; in some cases allowing you to borrow sufficient to cover the purchase of your new property and the stamp duty.

What happens if I start the process but no longer need the loan?

If the original buyer comes back and you secure another sale between the point of starting the application and drawing down funds, you are not required to take the bridging loan.

We often set up a bridging loan as a plan B or even plan C. You are able to cancel the bridging loan at any point prior to completion, however you may be liable for any professional fees paid up front such as valuation fees, legal fees and broker fees.

What happens if I haven't been able to repay the loan within 12 months?

We often get asked this question, as with the best will in the world, sometimes there are circumstances which are outside of our control. You may achieve a sale, but then this could fall through or the property sale may take slightly longer than anticipated. We are often able to negotiate an extension with the current lender and can look at refinancing options after that, to allow you the time you need to pay back your loan. It's best to keep in touch with SPF if you have any concerns about

your repayment vehicle during the term of the loan, so we can help liaise with the lender on your behalf.

What are the key benefits of a chain break bridging loan?

- ✓ Interest payments can be rolled up so you do not need to make a monthly payment each month as you would with a mortgage.
- ✓ Due to the interest payments being 'rolled up' there are no minimum income requirements, unless you will be repaying the loan with a new mortgage.
- ✓ First and second charges loans are available.
- ✓ High loan-to-values (LTVs) are available.
- ✓ The loan can be arranged quickly and with minimal documentation.

client didn't want a mortgage as he would be in a position to repay the loan within the next 12 months. They had not yet secured an offer on their current property so they required a short term bridging loan.

SPF were able to arrange a bridging loan of £1.3M which included the deposit plus funds to pay the stamp duty and the loan was agreed for a 12-month term. The loan had no exit fees or early repayment charges which meant they could repay the loan when they were ready; the only condition was a minimum term of one month.

Case Study 2:

The clients were in their sixties and owned a property worth £750,000 with a small mortgage of £100,000 in Nottinghamshire, and were downsizing to a bungalow worth £410,000 in Sheffield.

They planned to carry out a refurbishment to their new property and had money available to do so. SPF were able to raise a bridging loan for the full purchase price of the property plus the stamp duty fees; this enabled them to complete the purchase of the bungalow without waiting on the sale of their existing home. Once their current property was sold they would then use the sale proceeds to repay their bridging loan. The loan had no exit fees or early repayment charges which meant they could repay the loan when they were ready.

Case Studies

Case Study 1:

The clients owned a £4M property in Devon, their children had left home and they wished to move to a smaller property. They had found their dream home in Surrey and had their offer accepted for £3M. The client had £2M in cash, but required the balance plus additional funds for stamp duty and other associated costs. The



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Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage. If you secure a bridging loan on two properties there is the additional risk of both properties being repossessed if you do not keep up repayments on your mortgage.

We may charge a fee for the advice we provide; this fee will be dependent upon your personal circumstances and will be agreed with you after we have fully understood your requirements. Any fee is payable upon successful completion of the loan, unless agreed otherwise. We typically receive commission from the lender. SPF is a credit broker, not a lender.

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