

Cross the Bridge

Interim financing can be a deal-saver for borrowers who need a loan fast

By **Lisa Kelly**, director of sales and marketing, Equity Secured Capital

WHEN I TELL PEOPLE I'M IN the bridge-lending business, they often give me a funny look or say, "Oh," and then change the subject. Even some finance professionals may be unfamiliar with it.

Simply put, a bridge loan is interim financing. Used correctly, it lets borrowers close quickly to take advantage of a short-term opportunity when time is of the essence. It bridges the gap between your client's current situation and a better one.

Adding bridge lending to your repertoire of products can enhance your value to clients. Take the time to understand what bridge lending is and why it's beneficial.

What it is

Banks often do not offer bridge loans because of a project's speculative nature, risk or collateral issues or because borrowers lack income documentation, credit or liquidity. Private lenders, individuals and investment pools are more likely to provide the funds.

Typical terms are from three months to three years. The interest rates can run from 10 percent to 18 percent. Brokers often charge 2 to 4 points. Loan-to-cost and loan-to-value ratios usually don't exceed 75 percent.

Why would borrowers pay such high rates and points, especially if they have solid credit? Because bridge loans make it possible for them to hold one piece of property, buy another property and pay off a current lien-holder quickly. Many bridge lenders can close a deal in two weeks or less.

When it works

Consider some examples in which speed is the

primary factor in the deal. Say your clients have a property for sale that is not selling. Whatever the reason, the owners need capital quickly to invest in another property or they will lose the opportunity. This is a good time for a bridge loan.

In another example, developers who own land want to move quickly on another business opportunity. They can get cash out on the land through a bridge loan.

Bridge lending may also be used in situations when a traditional bank may find the collateral unacceptable. For example, your developer clients own raw land that isn't cash-flowing, but they need cash to close on another property. By allowing them to cash out on their equity in the land, the interim loan lets them make the purchase.

Or you may have some clients who want to purchase a convenience store. The property doesn't generate positive cash flow, but they know they can make the store successful soon.

Or your clients want to develop a vacant building, but the seller isn't giving them time to put the development piece together. A bridge loan gives them adequate time to create the development plans.

Bridge loans are also helpful in cases when credit and income documentation are weak. In addition, they can be used as a creative solution to clients' finance needs — for example, if the borrowers do not have 30 percent to put down. Most bridge lenders use cross-collateralization, so they pledge another property your clients own in conjunction. If your clients have available equity in the current property, they can put little or no money down.

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Be sure to analyze clients' situations. Does a bridge loan make sense? Are you allowing them to get to their goal more smoothly?

The point of a bridge loan is to convert an unworkable circumstance into a positive and profitable one. By understanding the basics, you can maximize the benefits for your clients and create opportunities impossible through

traditional financing methods.

In other words, you can use bridge lending to take your business to a better place. **!!!**



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