Fact sheet

Bridging Finance

What is a bridging loan?

If you want to buy a new home before selling your existing one, you may need a bridging loan. This is a short-term loan that you take out in addition to your current home loan, to allow you to purchase a second property while still owning your existing property.

How does it work?

To qualify for bridging finance, you'll need to demonstrate you have significant equity in your home to achieve a loan to value ratio (LVR) of 80% or less on the 'peak debt'. You will also need to show you have the capacity to service your peak debt.

Generally, the bridging loan calculation will work something like this:[1]

1. Take out your bridging loan with the purchase of your new property:

Existing home loan balance (current debt)		$300,000
+	Purchase price of New Home	$1,000,000
+	Purchase costs including stamp duty**	$45,000
=	**Peak debt (short term debt)**	**$1,345,000**

In this scenario, you would need at least $269,000 equity (20% of the peak debt).

2. Bridging Period: You may make interest only repayments on this peak debt. Alternatively, you may be able to capitalise this interest and instead make P&I repayments on your end debt.
3. Once you sell your existing property, then::

Peak debt		**$1,345,000**
–	Net proceeds of sale of existing property (i.e. sale price less selling costs)	$700,000
=	**End debt (new home loan)**	**$645,000**
+	*any interest capitalised during the bridging period*	

Your loan reverts to a typical home loan of your choice, with a standard interest rate.

Typical features of a bridging loan:

- The lender usually takes over your existing mortgage, as well as financing the new property.
- In most cases, you will need to have your existing home on the market or a contract of sale.
- A bridging loan is usually interest only and interest is compounded monthly on your outstanding loan balance. Rates may be higher than a standard variable rate.

Things to consider:

Pros:

- If you find your dream home before you have settled on your existing home, a bridging loan can help you finance the purchase so you don't miss out on the sale.
- It is an emergency backup finance solution if you can't match up your settlement dates.

Cons:

- If you don't sell within the agreed time frame (usually 3 to 12 months), you may have to start making P&I repayments and be charged interest at a higher rate. You may also be forced to sell for a lower price to comply with your bridging loan obligations, leaving you with a shortfall in funds.
- Borrowing funds temporarily to cover a second property can be a big step. Always do your research to ensure you will cope financially in a worst-case scenario.

Get personalised advice

Everyone's circumstances are unique. Speak with your Smartline Adviser for more information and to get personalised advice that matches your requirements.

[1] Lenders vary in regards to how they will calculate your peak debt, as well as their loan features and fees. All figures are approximate and assume no other fees or charges for loan alterations.

[2] Varies in each state, amount shown is indicative.

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