Residential Bridging Loan

Frequently Asked Questions

1. **What is a bridging loan and how does it work?**
   A bridging loan lets you buy your next home before your current home is sold. We lend against both properties for a short period. The approved loan amount (peak debt) covers the purchase price of the new property, any loan balance refinanced on the property you are selling, purchase costs such as stamp duty, and a budget for the interest that will be capitalised onto the loan during the bridging period.

   You do not make monthly repayments during the bridging period – interest is capitalised to the loan balance each month. When your existing property sells, the net sale proceeds are applied to the loan to reduce loan principal. If nothing is left owing, the loan is repaid and both securities are discharged. If an amount remains (your residual debt or 'end debt'), the loan converts to a standard residential loan with normal repayments for the remaining term with principal and interest repayment.

2. **How long is the maximum bridging period and interest capitalisation period?**
   Our maximum bridging period is 18 months with interest capitalised. To manage the risk of a customer being unable to sell within short period of time, our minimum bridging period used to calculate interest capitalisation for use in serviceability is 12 months, but there is no penalty for early repayment of a bridging loan.

3. **Can I have cash out from my existing property to renovate before I sell?**
   Yes, you can. Cash out is requested as part of your bridging loan application, not as a separate top up once the loan has settled. When you apply, please let your broker know about this.

   Because a bridging loan is secured by both properties, you do not need a loan variation to access the equity in the property that you are selling. At settlement, the loan funds are applied to both pay out the existing loan if any on the property you are selling so that it is refinanced to us, and to fund the purchase of your new property and the associated purchase costs. Any remaining funds are paid to your nominated account with your instruction.

4. **My existing property has a mortgage - do I need to refinance this to Thinktank first before I get a bridging loan?**
   Yes, the existing loan will be refinanced concurrently to Thinktank when the new property purchase settles. Therefore, only 1 application for a bridging loan is required.

5. **Do I need a signed contract of sale on the property that I'm buying? Can I get pre-approval before I've found one?**
   Yes, a signed contract of sale on the property you are buying is required before we can give you formal (unconditional) approval, because the purchase price sets the loan amount we can approve.

   You can still come to us earlier – we can provide conditional approval, or pre-approval, before you have found a property. This lets you bid or negotiate knowing what you can borrow. Once you have signed a contract, your broker provides it to us along with any outstanding documents so we can move to formal approval.

6. **Can I use a bridging loan if I'm buying an investment property, or only owner occupied?**
   Both are supported. A bridging loan is available whether the property you are buying will be your home or an investment, and the property you are selling can also be either. For example, you can sell an investment property to help fund the purchase of a new home. Both properties still need to meet our standard residential security and location requirements, and where there is a residual debt, it must satisfy our normal lending criteria for that loan.

7. **Can I use it if I'm building or if the property is under construction?**
   No. A property under construction is not acceptable, whether it is the property you are selling or the property you are buying, and a bridging loan cannot be used to fund building work. Both properties must be completed, established residential properties.

8. **Can I sell an existing property I own 100% of, and buy another property with my partner/family/friends using a bridging loan?**
   Not under a bridging loan. The ownership of the property being sold and the property being purchased must be the same. For example, if you and your partner own the property you are selling, you and your partner must also be the owners of the property you are buying. Thinktank will consider cases where a borrower 1 is selling and subsequently buying a property with their spouse borrower 2.

9. **Do you support divorce bridging scenarios?**
   Separation scenarios that involve a jointly owned property being sold and a new property purchased in one name only are not supported.

10. **Do I need to make interest repayments during bridging period?**
    No. Interest is calculated on the daily closing balance and added to your loan each month during the bridging period, so there are no monthly repayments to make during bridging period. At approval we set an interest budget to cover the interest capitalisation. Capitalised interest is repaid when the loan is repaid or reduced to your residual debt after your existing property has been sold.

11. **What if I sell my existing property earlier than expected — what happens to the loan and the unused interest budget?**
    Selling early is not a problem and there is no penalty for repaying sooner. When your property settles, the net sale proceeds are applied to your loan, and we release that property from the mortgage. If nothing is left owing, your loan is repaid and closed. If there is a residual debt, the loan converts to a standard residential loan at that point and your normal repayments begin. The interest budget set at approval is a limit, not a charge – you only ever pay interest that has accrued up to the day your loan is repaid or converted.

12. **Can I make early repayments during bridging period?**
    Yes. You can make additional repayments at any time during the bridging period without penalty, and there is no early exit fee. Any repayment reduces the balance that interest is charged on. When your existing property settles, the net sale proceeds are applied to your loan, and we release that property from the mortgage.

13. **Can I use offset or redraw facility for a bridging loan?**
    Offset and redraw are not available during the bridging period. Once your existing property is sold and the loan converts to a standard residential loan, you can have an offset facility or redraw facility.

14. **Will interest rates change for my bridging loan?**
    The rate that applies during the bridging period is variable, so it can change over the bridging period. Because interest is capitalised, there is no monthly direct debit repayment required.

    When we assess the bridging loan, we use the higher of floor 7% and bridging loan interest rate plus 2% buffer to ensure that there is enough equity to continue capitalising interest even if interest rate increases.

15. **What if I can't sell my existing property in time?**
    Please contact your broker as early as possible. We will write to you 90 days and again 30 days before your bridging period ends to remind you upcoming bridging period expiry and confirm where you are up to with property sale.

16. **What if I can't sell my existing property for the value I have originally expected?**
    Your Letter of Offer sets out the residual debt and loan to valuation ratio we have approved. If your property sells for less than you expected, the sale proceeds may not be enough to bring your loan back to that approved amount. If that happens, you can contribute additional funds at settlement to make up the difference or ask us to consider a higher residual debt. A higher residual debt needs to be approved by us and is subject to credit assessment. Please speak with your broker as soon as it looks like the sale price may fall short.