Bridge Loan Financial Transaction

A Client’s Guide from Application to Payoff

A bridge loan is short-term financing used to “bridge” the gap between purchasing or improving a property and obtaining permanent financing or selling the property. The OCC describes it as financing expected to be replaced by permanent debt, equity or an asset sale before maturity. [OCC guidance]

Bridge loans are commonly used to:

- Purchase a property quickly
- Renovate or reposition a property
- Buy before an existing property sells
- Stabilize a rental property before refinancing
- Prevent a profitable transaction from being lost because permanent financing is not ready

1. Initial client consultation

We begin by understanding the proposed transaction.

The client provides:

- Property address and type
- Purchase contract
- Purchase price
- Estimated property value
- Renovation budget
- Project timeline
- Current leases or rent roll
- Borrowing entity
- Available cash
- Credit and financial background
- Intended exit strategy

The most important question is:

> How will the bridge loan be repaid before it matures?

Common repayment strategies include:

ACQUISITION & BRIDGE FINANCING

Use short-term capital to acquire or reposition the property before the permanent exit.

CLIENT CHECKPOINTS

- Define the purchase, renovation budget, timeline and required borrower cash.
- Verify a realistic sale or permanent-refinance strategy before loan maturity.
- Review the term, rate, points, required equity and guaranty obligations.

ENTRY GATE: A bridge loan must connect a sound acquisition to a credible repayment plan.

- Selling the renovated property
- Refinancing into a DSCR loan
- Refinancing into conventional financing
- Selling another property
- Receiving expected business or investment proceeds

The exit strategy must be realistic, documented and supported by sufficient time.

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2. Preliminary deal analysis

Before submitting the complete loan package, we determine whether the basic transaction fits the lender's requirements.

The lender may examine:

- Loan-to-value ratio, or LTV
- Loan-to-cost ratio, or LTC
- After-repair value, or ARV
- Borrower's liquidity
- Credit history
- Real-estate experience
- Property condition
- Marketability
- Renovation scope
- Exit strategy

Loan-to-value

[

\text{LTV}

\frac{\text{Loan Amount}}{\text{Property Value}}
\times 100
]

Loan-to-cost

[

\text{LTC}

\frac{\text{Loan Amount}}{\text{Purchase Price + Renovation Costs}}
\times 100
]

A lender may calculate leverage against the current value, purchase price, total project cost or after-repair value. The lender's policy controls.

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3. Indicative loan proposal

If the transaction appears viable, the lender or broker may issue preliminary terms.

The proposal normally identifies:

- Maximum loan amount
- Interest rate
- Loan term
- Origination points
- Required down payment
- Renovation funding
- Interest-payment structure
- Extension options
- Prepayment requirements
- Appraisal requirement
- Legal and closing costs
- Personal-guaranty requirements
- Exit-strategy conditions

Preliminary terms are not final approval. They remain subject to underwriting, valuation, title and closing conditions.

Understanding points

One point equals 1% of the loan amount.

For a $300,000 loan:

[
1\text{ point}= $3,000
]

Therefore:

- 2 points = $6,000
- 3 points = $9,000
- 5 points = $15,000

Ask whether points are paid separately, deducted from loan proceeds or financed into the transaction.

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4. Submit the complete loan package

The client completes the application and provides supporting documents.

Borrower documents

- Government-issued identification
- Personal financial statement
- Credit authorization
- Bank statements
- Entity formation documents
- Operating agreement
- EIN confirmation
- Certificate of good standing
- Real-estate schedule
- Prior project history
- Tax returns when required
- Explanation of prior credit issues
- Proof of funds

Property documents

- Executed purchase agreement
- Current deed
- Property photographs
- Preliminary title information
- Appraisal or valuation
- Renovation scope
- Contractor bids

- Project budget
- Draw schedule
- Insurance quote
- Leases and rent roll
- Property operating statements
- Zoning or permit information
- Purchase and sale comparables

Incomplete or inconsistent documentation is one of the primary causes of delays.

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5. Property valuation

The lender orders an appraisal, broker price opinion or other acceptable valuation.

Depending on the project, the report may estimate:

- Current as-is value
- After-repair value
- Stabilized value
- Market rent
- Expected marketing time
- Comparable sales
- Replacement cost

The lender generally controls the valuation process. The borrower should not assume that the lender will accept a valuation supplied by the seller, real-estate agent or borrower.

If the value is lower than expected, the lender may:

- Reduce the loan amount
- Require more borrower cash
- Reduce the renovation budget
- Change the loan structure
- Decline the transaction

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6. Lender underwriting

The underwriter evaluates the borrower, property and exit strategy as one complete transaction.

Borrower review

VALUATION, LEVERAGE & APPROVAL

The lender evaluates the collateral, borrower and exit as one complete transaction.

CLIENT CHECKPOINTS

- Confirm as-is value, after-repair value, loan-to-value and loan-to-cost.
- Support liquidity, reserves, credit, experience and the proposed renovation scope.
- Satisfy appraisal, title, insurance and all conditional-approval requirements.

APPROVAL GATE: Preliminary terms remain subject to underwriting and verified value.

The lender considers:

- Credit profile
- Liquidity and reserves
- Income or cash flow
- Existing debt
- Real-estate experience
- Prior foreclosures or bankruptcies
- Background information
- Ability to handle cost overruns

Property review

The lender examines:

- Current condition
- Market value
- Location
- Market demand
- Title
- Taxes and liens
- Insurance availability
- Environmental risks
- Zoning
- Renovation feasibility

Exit-strategy review

For a resale:

- Is the projected resale value supportable?
- Is the renovation schedule realistic?
- Is there enough profit after financing and selling costs?
- Can the property sell before maturity?

For a refinance:

- Will the completed property generate sufficient income?
- Will the client qualify for permanent financing?
- Will the new appraisal support the refinance?
- Will seasoning requirements apply?
- Will the permanent loan be large enough to pay off the bridge loan?

A bridge loan should not depend on an uncertain exit with no backup plan.

7. Conditional approval

If underwriting is satisfactory, the lender issues a conditional approval or commitment.

Typical conditions include:

- Satisfactory appraisal
- Clear title
- Required borrower contribution
- Proof of reserves
- Property insurance
- Flood determination
- Entity documents
- Contractor approval
- Final renovation budget
- Permits
- Updated bank statements
- Personal guaranty
- Acceptable closing statement
- Evidence supporting the exit strategy

The loan is not cleared to close until every material condition has been satisfied or waived in writing.

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8. Determine the borrower's cash requirement

The borrower's contribution generally includes more than the down payment.

Common cash requirements

- Purchase-price contribution
- Origination points
- Appraisal
- Inspection
- Attorney or settlement fees
- Title insurance
- Recording charges
- Lender legal fees
- Insurance premium
- Prepaid interest

- Interest reserve
- Renovation funds not financed
- Contingency reserve

Example bridge transaction

Transaction item	Amount
Purchase price	$300,000
Renovation budget	$75,000
Total project cost	$375,000
Bridge loan	$300,000
Borrower project contribution	$75,000
Two origination points	$6,000
Estimated third-party costs	$5,000
Approximate initial cash needed	$86,000

This example excludes any lender-required reserves and assumes all $75,000 of renovation funding is included in the bridge loan. Actual structures vary.

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9. Closing preparation

The closing professional coordinates:

- Title examination
- Payoff of existing liens
- Loan documents
- Promissory note
- Mortgage, deed of trust or security deed
- Assignment of rents, if applicable
- Personal guaranty
- Entity authorization
- Insurance verification
- Settlement statement

- Recording
- Funding and disbursement

Before closing, the client should compare the final documents with the approved terms.

Confirm:

- Loan amount
- Interest rate
- Payment
- Maturity date
- Origination points
- Default interest
- Late charges
- Extension rights
- Prepayment provisions
- Renovation holdback
- Interest reserve
- Personal guaranty
- Recourse provisions
- Required monthly reporting
- Events of default

The client should have independent legal and tax professionals review the transaction.

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10. Money moves at closing

A simplified closing flow looks like this:

Sources of funds

- Bridge lender's acquisition advance
- Borrower's cash contribution
- Earnest-money credit
- Other approved financing

Uses of funds

- Purchase price
- Existing mortgage and lien payoffs
- Lender points
- Closing expenses
- Taxes and prorations

- Insurance
- Interest reserve
- Renovation escrow
- Other approved costs

Not all approved proceeds necessarily go to the seller. Renovation proceeds may remain in a controlled account and be released through draws.

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11. Renovation draws

When rehabilitation funds are included, the lender commonly releases them after work is completed.

A typical draw process is:

1. Contractor completes an approved stage.
2. Borrower submits a draw request.
3. Borrower supplies invoices, receipts and lien waivers.
4. Lender orders an inspection.
5. Inspector verifies the completed work.
6. Lender approves the eligible amount.
7. Funds are released to the borrower or contractor.

The client may need enough liquidity to pay initial construction expenses before receiving reimbursement.

Common draw problems include:

- Unapproved changes
- Missing permits
- Incomplete work
- Cost overruns
- Contractor disputes
- Missing lien waivers
- Work outside the approved scope
- Requesting funds for work that has not been completed

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12. Loan payments during the term

RENOVATION DRAWS & LOAN CONTROL

Renovation proceeds may be held back and released only after documented progress.

CLIENT CHECKPOINTS

- Complete an approved stage and submit invoices, receipts and lien waivers.
- Pass the lender's inspection before eligible draw funds are released.
- Track interest, reserves, cost overruns and the approaching maturity date.

DRAW GATE: Unapproved work, missing documents or failed inspections can delay funding.

Most bridge loans require monthly interest payments, although some include an interest reserve.

Interest-only calculation

For a $300,000 outstanding balance at 11%:

[

\frac{$300,000 \times 11%}{12}

$2,750
]

The estimated monthly interest-only payment would be $2,750.

If construction funds are advanced gradually, interest may be charged only on the amount actually outstanding. The loan documents determine the calculation.

The client must budget for:

- Monthly interest
- Property taxes
- Insurance
- Utilities
- Security
- Maintenance
- Construction overruns
- HOA charges
- Extension fees
- Leasing and selling expenses

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13. Monitor the project and exit strategy

The client should track:

- Renovation progress
- Actual versus budgeted costs
- Draw status

- Interest payments
- Loan maturity
- Property taxes
- Insurance expiration
- Listing or leasing progress
- Permanent-loan application
- Required seasoning period
- Projected payoff amount

Do not wait until maturity to begin the refinance or sale. Ideally, begin arranging the exit several months in advance.

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14. Exit through sale or refinance

Exit A: Sell the property

The sale proceeds are generally applied in this order:

1. Selling expenses
2. Bridge-loan principal
3. Accrued interest
4. Lender fees and release charges
5. Other liens
6. Remaining proceeds to the borrower

Exit B: Refinance into permanent financing

The permanent lender:

1. Re-underwrites the borrower and property.
2. Orders a new appraisal when required.
3. Confirms stabilized rent or income.
4. Approves the permanent loan.
5. Sends payoff funds at closing.
6. Pays off and replaces the bridge loan.

A projected refinance is not guaranteed. Changes in value, interest rates, credit, rent, occupancy or lending guidelines can reduce the permanent loan amount.

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15. Request and verify the payoff

Before the sale or refinance closing, the closing professional requests an official payoff statement.

The payoff may include:

- Outstanding principal
- Accrued interest
- Exit fee
- Extension fee
- Default charges
- Legal expenses
- Recording or release fees
- Per-diem interest

After payment, confirm that the lender releases its lien and any assignment of rents or related collateral.

Major risks your client should understand

- The loan is short-term and has a firm maturity date.
- Rates and fees are typically higher than permanent financing.
- Renovation funds may be reimbursed rather than advanced.
- The appraisal may reduce the available loan.
- Cost overruns remain the borrower's responsibility.
- A delayed sale can create additional interest and extension fees.
- Permanent refinancing is not guaranteed.
- Default can result in foreclosure and enforcement of a personal guaranty.
- Consumer-purpose and owner-occupied bridge loans can be subject to different rules from business-purpose investment loans.

Some federal treatment also depends on the loan's term and purpose. For example, the CFPB identifies certain temporary bridge loans of 12 months or less separately under its mortgage regulations. CFPB Regulation Z Therefore, the lender and attorney must determine which disclosures and consumer protections apply to the specific transaction.

The central principle

A bridge loan works when four things align:

> A sound property + sufficient borrower cash + realistic timeline + verified exit strategy.

The client should not close merely because the loan is available. The project must still generate sufficient proceeds to repay the bridge loan, cover every cost and produce an acceptable return.

SALE, REFINANCE & BRIDGE PAYOFF

Complete the exit before maturity and verify the lender's lien is released.

CLIENT CHECKPOINTS

- Request an official payoff statement before the sale or refinance closing.
- Pay principal, accrued interest, exit charges and other authorized lender costs.
- Confirm the lien release and calculate the borrower's final net proceeds.

EXIT GATE: Permanent financing or a sale is not complete until the bridge loan is paid.