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IMPACT OF BRIDGE LOAN FOR PROPERTY MANAGEMENT IN REAL ESTATE SECTOR

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ABSTRACT

Property Management in Real Estate Management is an Art as well as Science and also a profession. Property based business needs lot of dynamism in decision making and financial resourcing. In such situation financial resources plays a major role in real Estate sector. Property management may come across financial crisis or financial short fall that may occur to complete a business transaction in real estate business irrespective of the business nature or size of the project. In Real Estate, the major market is housing market in which this is the most essential context the industry has to come across. This crisis may be for a very short duration. In general, resourcing a financial support for a short span of time will be a challenging one to procure in the financial market. Because, this financial support won't generate sizeable revenue to the financier, but it has to undergo the same volume of process to get the loan processed. This is the context, where the consumers are in need of a loan that can fulfill the financial support at a reasonable interest. This support is named as Bridge Loan or Bridge Financing. Bridge Loan provides developers, investors and landlords with the financial support. Consumer needs this support in

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order to deal with cash flow issues or to take advantage of an opportunity in a particular time-efficient manner. Because of its fast processing nature, Funds can be originated quickly that needs reduced due diligence required to procure. This bridge loan support for lenders is considered risky, and for borrowers it is considered as ‘relatively’ expensive. Bridging loan provides ads value to the borrower, the expense is often justified. Because, the volume of consumers in need, bridge loan is a major one. Hence, Bridge loan can create a massive business change in Real Estate Market. This study explores the maximum possible support and impact of bridge loan in Property Management in Real Estate Sector.

KEY WORDS: Real Estate, Bridge Loan, Property Management, Investor, Borrower,

INTRODUCTION

Property Management is an art to be practiced and experienced that cannot be learned theoretically without hands on experience. It needs lot of in-depth knowledge in various financial disciplines and a thorough experience in the real estate sector and financial management. While handling property management, the investor has to take proper decisions in handling the financial aspects. It’s human nature to have a desire for property ownership. It is every human’s nature to dream for newer and better things always, with higher comfortability. In today’s digital world, he wants to be equipped with different new and higher facilities at different times. Every one’s first dream is to have a comfortable own house in the housing market. If he has economy, he may go for procuring a new one as per his expectation. Even if he has not sufficient economy, he may go for procuring a new house by borrowing from any financial sources. Alternatively he can plan, to sell the existing property for procuring a new one as per his need. If an investor is interested to buy a new house by selling the existing one that he considers of less or no use, it may be a good idea. But the practical reality is that both the transaction has to happen together to complete the buying and selling process. Many of the time, it is certain that both the transaction will not happen at the same time. It is rarely possible that the two different transactions will happen simultaneously since the decisions of the buyer and seller of the properties may not coincide. There is no assurance that both can happen together, and there is no certainty also. In this situation any investor may have to think of other alternatives to meet out this gap between the two transactions, where there is loan facilities extended by financial institutions called bridge loan.

Bridge loan

A bridge loan is interim financing for an individual or business community until permanent financing or the next level of financing is organized. Money from the new financial institution is generally used to pay back the bridge loan as well as other interim financial needs. Bridge loans are in general more expensive than regular loans because of their higher interest rate. The processing fees and other execution activities are same as long term loan, with high EMI which can not be minimized due to its short duration of repayment. The only privilege of bridge loan is, quicker process and relatively little documentation formalities. Thus it is a type of short term loan, typically taken out for a shorter period of duration. This is usually called bridging loan or bridging finance.

Bridge loan is a facility that helps to meet out financial shortage during the new house purchase transaction process. A situation may arise when one investor wants to sell his existing house and wants to buy a new modern comfortable house based on the sales transaction. But it is trivial that both the business transaction like selling the existing property and buying a new property, cannot happen together, and even if it happens, it will be in the rarest case only. An investor cannot take risks based on positive assumptions. In such situation, when there is no 100 percent opportunity to sell the old house at appropriate or anticipated time, but at the same time, the new house purchase has to be completed within a time limit, then the bridge loan will be the only alternate solution to meet out the desire. Bridge loan facilitates to procure property where time limitations are there to finish above discussed transactions and to repay the loan without much financial loss. This is how, the present housing customers are wishing to buy their dream house.

On the other hand, high financial loss is inevitable wherein a person decides to sell the property at whatever price offered for his property due to the urgency involved. When keenly looked, the situation is a short time financial crisis, where the investor wants to invest towards a better comfortable house based on the sales of the existing old house. Financial institution are ready to provide bridge loan as short term loan not exceeding minimum 1 year or maximum 3 years.

Majority of financial institution are ready to sanction this bridge loan at the earliest with relatively little documentation formalities.

Here, housing finance supporting financial institutions may charge higher interest rate for bridge loan. Though interest rates are high, consumers are interested to consume this loan to meet out the interim financial need at affordable interest rate. Because of this bridge loan financial support, consumers are helped to meet out the challenges to procure the dream home. Thus, the bridge loan plays an important role as a stand-by financial support to fulfill the dream house project transaction, as a solution provider.

As per the bridge loan facilities, offered by various financial institutions, consumer has to sell their old house to repay the bridge loan. If needed and if the consumer request, the bank may be ready to extend the support, by changing the bridge loan into mortgage loan also, when there was not expected sales happened. Banks used to follow this conversion based on the request and acceptance of consumer. Then according the loan conversion interest rate may vary. Then the bridge loan may become a housing loan with respective interest rate and conversion charges.

In general, financial institutions are used to provide 80% of the valuation of the selling property as financial support. These bridge loans are used to be processed like a regular term loan process. The bank may peruse the consumer's financial discipline such as valuation of the properties to be procured or guaranteed, consumer's early loan histories, consumer's existing loan liabilities at present, repaying capacity, return on investment opportunities, liquidation opportunities and possible loan credits for future loan. Also bank will verify repayment capacity of consumer, income tax clearance certificate, and last 3 year bank statement to assess the financial discipline of the consumer and past history of the bank transaction or loan transaction if any, before approving the bridge loan. Based on these past histories only bank may come forward to approve the bridge loan before providing the loan. All the relevant legal documents such as title deed, patta, chitta, field map book copy, encumbrance certification, earlier hypothecation if any, will be verified. If the financial institutions are satisfied as per their banking regulations for financial support, then only, present property's legal documents will be pledged under the bank custody. Here, another facility of bridge loan is, if any new home buyer is ready to buy a pledged house, then the buyer can pay his purchase money directly to the bank through account for that particular property. The difference money can be paid back to the seller. Thereafter, till the consumer sells the pledged house, he can repay the loan money.

In Indian financial institutions, in terms of EMI, month wise interest rate will be stable. If the sales transaction is completed, immediately the buyer can repay the money and close the loan account called premature loan account closing. The bank may claim higher interest rate for this type of short term bridge loan. In addition, loan processing charges will be also higher. Here the consumer has to consider these higher rates of interest and processing charges before going to the bridge loan as he chooses for very short time loan. So, the consumer should understand and negotiate the terms and conditions carefully with financial institutions to compare the bridge loan offer, thoroughly, that can help them to identify the best financial support and financial institution rightly. Consumers should have the ability to choose the best financial institutions; those can offer bridge loans at lower interest, processing charges with easy procedures. It is consumer's responsibility to analyze various involved features. Consumer has to analyze the offers given by various banks and have to compare and understand the differences. To attract consumers, the financial institutions should adhere to the clarity of terms and conditions along with interest rates that should be in favor of the consumers. In such a way, bridge loan impacts in the real estate sector. Especially in housing finance bridge loan acts as an interim financial solution provider.

BRIDGE LOAN IN REAL ESTATE DEVELOPMENT

Bridge loan on a property in Real Estate are typically paid back when the property is sold, It is easily approved when the borrower's credit worthiness improves. Through bridge loan, the property may be improved or completed, or modified which can allow for a subsequent round of mortgage finance occurring. The timing issue may arise from project phases with different cash requirements and risk profiles. It is a short term support for unusual circumstances. Thus the bridging loan is a short term loan that bridges the gap between longer term loans in the real estate sector in many of the situations. A construction loan would then be obtained to take out the bridge loan as well as provide further fund support for the completion of the project. A bridge loan may be obtained by developers to carry out a project while the permit approval sought is delayed. A consumer may purchase a new residence and plans **to make a down payment** through bridge loan that proceeds from the sale of a currently owned property. A bridging loan may be used by a real estate business man to ensure **continued smooth operation** during a selling buying transaction. Bridging loan helps to settle accounts when a senior partner wants to leave the partnership from the company. Here the values of the company premises allow funds to be raised via other sources such as by including partners. In such situations bridging loan can be an alternate until a new partnership admission is made.

CONCLUSIONS

The bridge loan is an alternative financial resource which plays a major role in the Real Estate Sector. In this sector, in particular as an interim financial solution provider, it has made a great impact. It temporarily works to meet out the sales price of the new home, in the event of which, the buyer’s existing property has not yet would. In general the common reason investors take out a bridge loan is to buy another home before selling his presently existing property or residence. A property for sale may loose value if the property buyer senses the urgency of the seller. Thus the bridge loan secures the new home buyer and his property for a right price. The financial supports offered through bridge loan are used as a down payment for move-up home. Thus bridge loan facility is more popular in real estate market. Whether it is a good option for a buyer or not, depends on several factors which have to be considered from the consumer’s point of view. Bridge loans are used for commercial real estate purchases to close the deal at the earliest. Consumers can take advantage of a short term opportunity to secure long term financing. Thus the impact of bridge loan plays a major role in Property Management in Real Estate Business.

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