

When considering bridging finance, many borrowers instinctively lean towards shorter loan terms, thinking it will reduce their overall [rolled-up interest bridging loan](#) cost. But is that truly the case? In this deep-dive, we'll explore the key considerations around term planning bridging, why interest accumulates quickly, and how to avoid costly extensions. We'll also unpack typical total cost ranges and explain the importance of clear exit strategies, referencing trusted voices like **Iredell Free News** and industry players such as **KIS Finance** and their specialist offering **KIS Bridging Loans**.

Understanding the Basics: What Are Bridging Loans?

Bridging loans are short-term financing products designed to cover gaps in funding. They commonly last between 3 and 12 months and are widely used by property developers, investors, or homeowners needing quick access to funds. Their flexibility, speed of approval, and easier qualification compared to traditional mortgages make them attractive — but they come at a cost.

Typical Total Cost Ranges: 7% to 15%

Bridging loan costs can vary significantly. Typical all-in costs range from **7% to 15%** annually, but this is a simple figure that masks many nuances:

- **Interest Rate:** Usually quoted as a monthly rate, typically from 0.4% to 1.5% per month.
- **Fees & Charges:** Arrangement fees, valuation fees, legal fees, exit fees, and sometimes early repayment charges.

For example, a 1% monthly interest rate translates to 12% annually — but because you rarely pay interest for a full year if your term is shorter, the headline number becomes less useful without context.

Why Interest Rates Are Quoted Monthly

Bridging lenders quote interest as a monthly rate because:

1. **Short-term nature:** Loans often last just a few months, making annual rates misleading.
2. **Interest accrual frequency:** Interest compounds monthly, meaning you pay for the actual time the loan is outstanding.
3. **Term flexibility:** Borrowers may extend terms by month if exit strategies don't materialize as planned.

Remember: When comparing bridging rates to traditional mortgage rates, comparing a monthly bridging rate to an annual mortgage rate without adjusting for term length is a recipe for confusion and misbudgeting — something we frequently flagged when managing cases.



LTV as a Pricing Lever: Below ~55% vs 75% to 80%

Loan-to-Value (LTV) ratio plays a pivotal role in how lenders price bridging loans. The lower your LTV, the lower your risk and thus the cheaper your cost of borrowing.

LTV Range Typical Monthly Interest Rate Notes
Below ~55% 0.4% - 0.6% Prime pricing, often for very low-risk loans backed by strong security.
55% to 65% 0.6% - 0.9% Still competitive, used for typical but less conservative projects.
65% to 75% 0.9% - 1.2% Higher risk band, reflects project or borrower complexities.
75% to 80% 1.2% - 1.5%+ Highest risk band, limited lenders willing to price or with extensive conditions.

Key takeaway: aiming for an LTV below 55% can significantly reduce your monthly interest and overall cost, something **KIS Finance** emphasises when advising clients on bridging solutions via **KIS Bridging Loans**.

Why Taking a Shorter Term Might Not Always Save Money

At first glance, shortening the bridging loan term looks like a sure way to pay less overall interest. However, the reality is more complex.

- **Higher Monthly Interest Rates for Short-Term Deals:** Some lenders may charge a premium for very short terms (e.g., 3 months) because the lender has less time to recover costs and manage their risk.
- **Arrangement Fees Are Fixed:** Fees like arrangement and legal costs remain the same whether you borrow for 3 months or 6 months, making the fee component proportionally larger in shorter deals.
- **Extensions Are Expensive:** If your exit strategy falters, extending a short-term loan can add unexpected months of expensive interest — often at higher rates — quickly eroding any savings.

Borrowers who “rush” to pick ultra-short bridging terms without robust exit strategies often find themselves stuck with extensions that inflate costs dramatically.

The Critical Role of Exit Strategy Clarity and Evidence

One of the strongest messages repeated in discussions on bridging finance, including in Iredell Free News commentaries, is the importance of a clear, credible exit strategy. Lenders want evidence you can repay on time:

- **Sale Contract in Place:** If you're bridging to sell a property, having a sale agreed or under offer with a completion date.
- **Refinance Approval:** If bridging to longer-term finance, having conditional mortgage offers or lender agreements.
- **Liquidity Evidence:** Demonstrating reserves or asset sales planned to cover repayment.

Without this clarity and documentation, you risk lenders pricing you more conservatively, requiring additional security, or imposing higher fees to buffer their risk.

Independent Valuation Report and Legal Representation: Don't Overlook These

While they might seem like "just more paperwork," an independent valuation report is vital. It provides an objective property value on which your loan amount is based, and lenders use it extensively to assess risk and pricing.

Equally, proper **legal representation for both borrower and lender** ensures compliance and verifies title, helping avoid costly delays or disputes which might lead to extensions or penalties.

The costs for these reports and representation must be budgeted upfront to get a realistic picture of your total outlay.

Sanity Check: Calculate Fees As a Percentage of the Loan

We always recommend sanity-checking the total fees and interest as a percentage of your loan amount before signing. Here's why:

- A 1% arrangement fee on a £100,000 loan is £1,000, but if your valuation and legal fees add £2,500 more, your fixed fees total £3,500 — 3.5% of your loan, regardless of term.
- If your monthly interest is 1%, a 3-month term costs approximately 3% interest by itself, totaling 6.5% including all fees.
- An extension pushing your term to 6 months adds more interest, compounding quickly; suddenly, your real total cost is pushing 10% or more.

This is why we always caution clients to avoid being lured by the appeal of shorter terms without thorough financial gatekeeping.

How to Approach Term Planning Bridging Finance

1. **Begin With Your Exit Strategy:** Validate your exit plan with hard evidence. No strategy, no deal — or at least, expect higher costs.
2. **Get an Independent Valuation Early:** Understand your property value so you can realistically set your loan size and expected LTV.
3. **Budget All Costs:** Include arrangement fees, valuation, legal fees, and potential exit fees—not just interest payments.
4. **Set a Term With Buffer:** Build in contingency time to avoid costly extensions.
5. **Compare Monthly Interest Rates Alongside Total Fees:** Avoid being misled by the lowest monthly rate if fees are high or legal costs excessive.
6. **Engage Experienced Brokers:** Teams like **KIS Finance** and specialized products like **KIS Bridging Loans** can help tailor borrowing to your project with transparency.

Final Thoughts: Does Shorter Really Mean Cheaper?

Taking a shorter bridging loan term doesn't automatically save money; in fact, it often raises your risk of expensive extensions and fee-heavy deals. Proper term planning bridging means scrutinising all costs, validating your exit strategy, and engaging expert advice.

While firms like Iredell Free News frequently highlight bridging finance's agility as a strength, they also caution borrowers against underestimating the cost components beyond headline interest rates. Similarly, companies such as KIS Finance show that borrowing wisely — including considering loan-to-value levers and legal safeguards — is the only way to truly optimise costs.

If you want to leverage bridging effectively, focus on clarity, budgeting realistically, and avoid the traps of chasing the shortest term with insufficient safeguards. That way, you truly save money — not just in theory but in the final tally.

