

English Assignment 1-3

Criteria: Assignment 1-3 is an exercise that focuses upon the ability to translate professional jargon and terms into a simpler format. This exercise is useful as professionals of all industries will interact with consumers or individuals from other industries. The objective of this assignment is to practice strategies that we could employ in different professional situations. I chose a term that is from my major and is also commonly explained to consumers.

Term: Bridge Financing

Situation: Developer explaining to a consumer at a development open house

Parenetical definition: Bridge financing (short-term loans) can be required before obtaining traditional financing for real estate developments.

Sentence Definition: Bridge financing is a loan type used commonly in real estate development. These loans are characterized by their short-term length, above-market interest rates, and are issued by non-traditional lenders.

Expanded Definition: Bridge financing first emerged as a non-traditional lending form in the 1960s (Hersch). Due to lending restrictions imposed on traditional financial institutions, a secondary lending market was creating. This new lending market was primarily funded by private investors, as banks and other traditional institutions were barred from issuing these loans (Hersch).

Bridge financing is an essential part of the real estate development financing process. The three defining characteristics that separate bridge financing from other types of financing in the process is the shorter loan period, higher interest rate, and private lender (Kagan). All three elements work cohesively and can be used to explain bridge loans. Bridge loans tend to have interest rates above the prevailing market rates, this is because the source of the loans is from private investors. The lending source is limited to private investors as the development fails to meet the risk threshold from banks. Bridge financing is used in the initial stage of the development process as traditional loans with lower interest rates can be obtained once the development is well underway. The development process and matching financing arrangements are illustrated in Figure 1.

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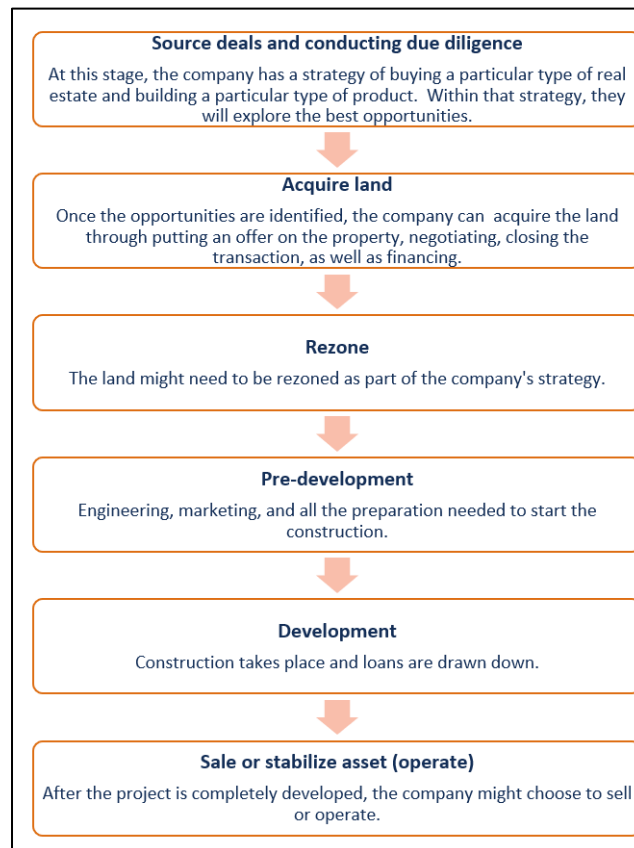


Figure 1: Land Development Process (Corporate Financial Institute)

Bridge financing is most seen in the second and third stage in the land development process. As these two periods have the highest risk since development permits and rezoning application have not been issued yet. This risk factor creates a necessity for bridge financing as traditional lenders will not lend to developers until at least the predevelopment stage.

Bibliography

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