

## Bridge Financing: What is it and how does it work?

By: Adrian Isaacs, CPA, CA, Founder & Managing Partner

The purpose of bridge financing is to arrange a loan to meet a financing need that an existing lender declines or to replace or complement a company's conventional financing. Bridge financing can fund rapid growth, bridge to an equity raise, finance a business acquisition, facilitate a turnaround, or assist those ineligible for traditional bank financing.

These loans are usually provided for a 9 to 12-month period (which could be renewable) with interest rates ranging from 13-25% per annum. Lenders also charge a one-time lenders fee ranging from 1% to 6%, paid on funding.

Bridge lenders are asset-based lenders so they always secure their loans against a company's assets and often require outside collateral. They typically require the business owner to sign a personal guarantee, so that there is strong goal alignment between the borrower and the lender should things not go as planned.

As there are a limited number of bridge lenders in the marketplace, borrowers do not have much leverage to negotiate terms.

Therefore, those seeking bridge financing need to carefully analyze how easy or difficult the lender will be to work with in this type of scenario.

When assessing a loan application, bridge lenders generally consider the following criteria:

1. **Exit Plan** – They want to understand how they are going have their loan repaid at maturity.
2. **Asset Value** – They always require a forced liquidation appraisal of the collateralized assets.
3. **Debt Service** – Can the company afford to pay the debt service costs?
4. **Management** – Does management have the skills to deal with the current business challenges and the skills and contacts to arrange for either the refinancing or pay-out of the bridge financing at its maturity?

If you'd like more detailed information on bridge financing, consider reading the full article "[Bridge Financing: What is it and how does it work?](#)" on Isaacs Advisory's website.