

When considering a bridging loan for a quick property finance solution, one of the key costs that often trips up borrowers is the **arrangement fee**. This fee, sometimes glossed over in initial discussions, can add materially to the overall cost of borrowing. In this post, we'll break down what an arrangement fee on a bridging loan really means, typical pricing bands you can expect, how loan-to-value (LTV) affects costs, and why exit strategy clarity is vital to avoid expensive surprises.

We will also weave in insights from industry players such as Iredell Free News, KIS Finance, and KIS Bridging Loans.

Understanding the Arrangement Fee on a Bridging Loan

The arrangement fee is essentially the lender's charge for setting up the bridging loan. Think of it as the loan's "initiation" fee, similar to an underwriting or processing fee in traditional mortgage markets.

It covers administrative costs related to:

- Credit checks and underwriting
- Documentation and compliance
- Commission payments (where applicable)
- Coordination with legal and valuation professionals

Importantly, the arrangement fee is typically expressed as a percentage of the *loan amount*. The most common figures you hear are around **1.5% arrangement fee bridging** or **2% arrangement fee bridging**. For instance, on a £100,000 bridging loan, a 1.5% fee means £1,500 upfront (or rolled into the loan balance).

Attention: Rolling Fees Into the Loan Balance and Interest Cost Implications

One quirk I've always sanity-checked is when brokers or lenders roll arrangement fees into the loan balance rather than charging them upfront. Sounds convenient, right? But this means you pay *interest on the arrangement fee too*, which can significantly increase your total cost if your term extends.

This is why it's vital to know:

- Whether the arrangement fee is paid upfront or included in the balance
- What your monthly interest rate is
- How long you expect the term to be

Example: Rolling a £2,000 fee into the loan at 1% monthly interest for a 6-month term roughly adds around £120 extra to your cost purely from interest on the fee.

How Much is the Typical Arrangement Fee?

The range varies but typically lenders quote arrangement fees from 1% up to around 2.5%, depending on deal complexity, borrower profile, and loan size. Here's a quick overview:

Arrangement Fee (%)	Cost on £100,000 Loan	Common Scenario
1.5%	£1,500	Standard or prime borrower, straightforward property
2%	£2,000	More complex or riskier deals
2.5%+	£2,500+	Higher risk loans, unusual property types

In my experience working alongside brokers and lenders such as KIS Finance and KIS Bridging Loans, 1.5% to 2% is the sweet spot, with many charging towards the lower end for loans with solid exit strategies and valuations.

What Does the Total Cost Look Like?

Bridging loans are often touted as “quick and cheap,” but one common misconception I hear on calls is ignoring fees beyond just <https://www.iredellfreenews.com/lifestyles/2026/how-much-does-a-bridging-loan-cost-in-the-uk/> interest. Total costs typically land between **7% to 15%** of the loan amount for a 6-month term, including:

- **Arrangement fees (1.5% to 2%)**
- **Monthly interest rates** (typically 0.5% to 1.5% per month)
- **Valuation fees:** An independent valuation report is usually required, costing a few hundred to over a thousand pounds, depending on property type
- **Legal fees:** Legal representation for borrower and lender must also be factored in, as documented through formal legal packs. Expect legal fees typically ranging from £1,000 to £3,000
- **Exit fees or early repayment charges** (if applicable)

Many borrowers neglect the valuation and legal fees, throwing their budgets off. So be sure you clarify these costs upfront when discussing your bridging loan options with lenders such as KIS Bridging Loans.

Why Are Monthly Interest Rates Quoted on Bridging Loans?

One pet peeve of mine is seeing borrowers or intermediaries compare monthly interest bridging rates with annual mortgage rates without proper context. Bridging loans are short-term, typically 3 to 12 months, so lenders quote *monthly interest rates* rather than annualised figures. A 1% monthly rate might sound high, but annualised it's over 12%, which reflects the specialist risk and flexibility offered.

Put simply:

- Interest is charged monthly in arrears
- You only pay interest on the actual loan drawn
- Loan terms are usually short, so monthly rates reflect the product's nature
- Exit strategies must be swift to avoid ballooning costs

Loan-To-Value (LTV) as a Pricing Lever

LTV is the ratio of loan amount to property value. It's a critical lever in pricing since lenders see lower LTVs as less risky.



Common pricing bands are:

- **Below ~55% LTV:** The loan is lower risk; many lenders offer better interest rates and lower arrangement fees, sometimes closer to 1.5%
- **Between 75% to 80% LTV:** Risk increases significantly, pushing arrangement fees up to 2%, monthly interest rates higher, and stricter underwriting

Any borrower entering a bridging loan negotiation should always sanity-check their LTV ratio and factor in how it affects their cost.

The Critical Role of the Exit Strategy

I've sat through many calls where borrowers don't have a clear exit plan or evidence for it when applying for bridging finance. This vagueness frustrates lenders and can add hundreds to thousands onto fees and interest.

Lenders want to see evidence of a credible exit strategy, which might include:

- Sale of the property: with market comparables and estate agent valuations
- Refinance in place: proof of mortgage offer
- Proof of funds to repay loan

Lenders like KIS Finance often require clear evidence of an exit plan before offering competitive rates and fees.

Without this clarity, fees tend to climb, and some brokers may offer products with hand-wavy exit strategies that are a recipe for financial trouble.

Wrapping Up: What Should Borrowers Keep in Mind?

1. **Ask explicitly about the arrangement fee percentage** — is it 1.5%, 2%, or higher?
2. **Find out if the fee is paid upfront or rolled into the loan balance** — and calculate interest implications
3. **Don't ignore valuation and legal fees:** These can add significantly to your cost and timelines
4. **Understand your monthly interest rates and why they are quoted this way.**
5. **Check your Loan-To-Value ratio** and how it affects pricing
6. **Have a credible, evidenced exit strategy** before proceeding
7. **Consider using reputable companies such as KIS Bridging Loans or seek market updates from sources like Iredell Free News**

By understanding the full picture, including arrangement fees and the often hidden costs, you can make bridging loans work for your property finance needs without nasty surprises.

For further reading, you might explore detailed case studies on bridging loans at KIS Finance's blog and detailed guides from Iredell Free News covering latest valuation and legal cost trends.