KNOWLEDGE CENTER · MJSIR.ORG

GUIDE · 7 PAGES

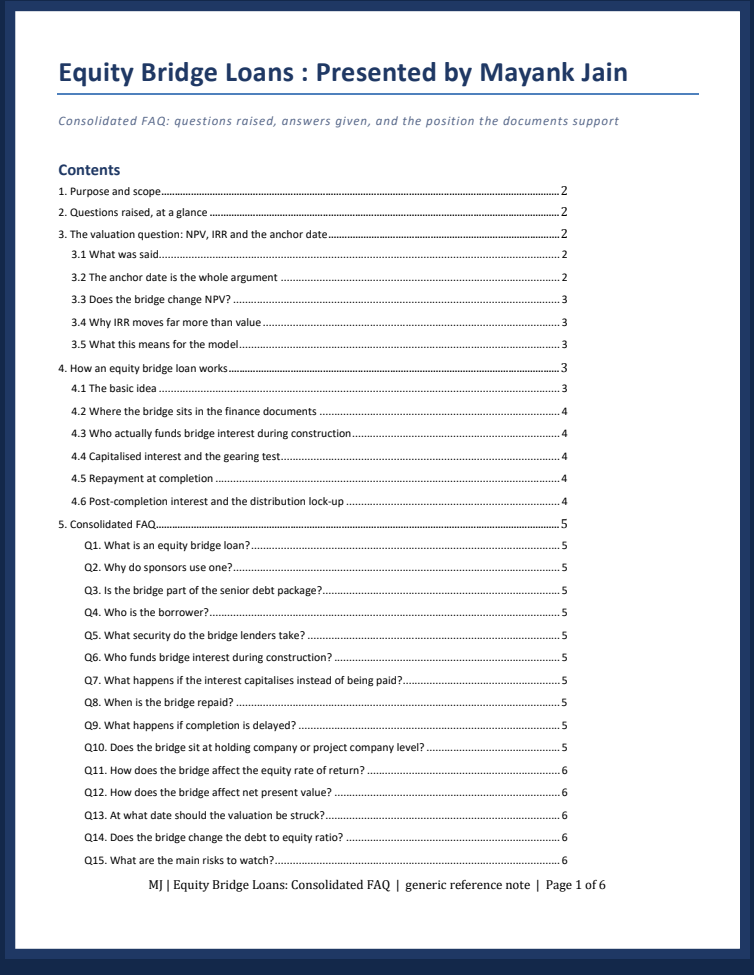
Equity Bridge Loans — Consolidated FAQ

The questions people ask about equity bridge loans, answered: who funds the interest, NPV versus IRR, where the bridge sits and how it is repaid.

Mayank Jain

Project finance · renewables · platform management

mjsir.org · Edition October 2026



Equity Bridge Loans : Presented by Mayank Jain

Consolidated FAQ: questions raised, answers given, and the position the documents support

Contents

1. Purpose and scope 2
2. Questions raised, at a glance 2
3. The valuation question: NPV, IRR and the anchor date 2
3.1 What was said 2
3.2 The anchor date is the whole argument 2
3.3 Does the bridge change NPV? 3
3.4 Why IRR moves far more than value 3
3.5 What this means for the model 3
4. How an equity bridge loan works 3
4.1 The basic idea 3
4.2 Where the bridge sits in the finance documents 4
4.3 Who actually funds bridge interest during construction 4
4.4 Capitalised interest and the gearing test 4
4.5 Repayment at completion 4
4.6 Post-completion interest and the distribution lock-up 4
5. Consolidated FAQ 5
Q1. What is an equity bridge loan? 5
Q2. Why do sponsors use one? 5
Q3. Is the bridge part of the senior debt package? 5
Q4. Who is the borrower? 5
Q5. What security do the bridge lenders take? 5
Q6. Who funds bridge interest during construction? 5
Q7. What happens if the interest capitalises instead of being paid? 5
Q8. When is the bridge repaid? 5
Q9. What happens if completion is delayed? 5
Q10. Does the bridge sit at holding company or project company level? 5
Q11. How does the bridge affect the equity rate of return? 6
Q12. How does the bridge affect net present value? 6
Q13. At what date should the valuation be struck? 6
Q14. Does the bridge change the debt to equity ratio? 6
Q15. What are the main risks to watch? 6

MJ | Equity Bridge Loans: Consolidated FAQ | generic reference note | Page 1 of 6

Free to read and share with credit to the author. For learning only — figures are illustrative; nothing here is financial, investment, tax or legal advice.

Equity Bridge Loans : Presented by Mayank Jain

Consolidated FAQ: questions raised, answers given, and the position the documents support

Contents

1. Purpose and scope 2
2. Questions raised, at a glance 2
3. The valuation question: NPV, IRR and the anchor date 2
   3.1 What was said 2
   3.2 The anchor date is the whole argument 2
   3.3 Does the bridge change NPV? 3
   3.4 Why IRR moves far more than value 3
   3.5 What this means for the model 3
4. How an equity bridge loan works 3
   4.1 The basic idea 3
   4.2 Where the bridge sits in the finance documents 4
   4.3 Who actually funds bridge interest during construction 4
   4.4 Capitalised interest and the gearing test 4
   4.5 Repayment at completion 4
   4.6 Post-completion interest and the distribution lock-up 4
5. Consolidated FAQ 5
   Q1. What is an equity bridge loan? 5
   Q2. Why do sponsors use one? 5
   Q3. Is the bridge part of the senior debt package? 5
   Q4. Who is the borrower? 5
   Q5. What security do the bridge lenders take? 5
   Q6. Who funds bridge interest during construction? 5
   Q7. What happens if the interest capitalises instead of being paid? 5
   Q8. When is the bridge repaid? 5
   Q9. What happens if completion is delayed? 5
   Q10. Does the bridge sit at holding company or project company level? 5
   Q11. How does the bridge affect the equity rate of return? 6
   Q12. How does the bridge affect net present value? 6
   Q13. At what date should the valuation be struck? 6
   Q14. Does the bridge change the debt to equity ratio? 6
   Q15. What are the main risks to watch? 6

1. Purpose and scope

This note consolidates the questions raised across the working sessions on equity bridge loans, and on how sponsor funding (base equity, shareholder loans and the bridge itself) actually reaches a project company. For each question it records the answer given at the time, whether that answer holds, and the position supported by the underlying finance documents.

The mechanics described here are generic to limited-recourse project financings. Clause concepts are referred to by their usual defined-term names rather than by reference to any particular agreement, and no figure in this note is taken from a live transaction. Where a number appears it is illustrative, and labelled as such.

2. Questions raised, at a glance

Six substantive questions came up across the sessions. Three were answered correctly at the time, one was answered correctly only in part, and two were answered incorrectly. The table below shows where each lands; the sections that follow set out the reasoning.

Question raised	Answer given in the session	Where it lands
Who funds bridge interest during construction?	The obligation sits with the company, so the sponsors carry it	**Half right. Senior debt funds a share (4.3)**
Is that interest funded in gearing proportion?	Challenged in the room as roughly in gearing proportion	**Correct (4.3)**
Does the structure need a holding company bridge?	Left open	**No. Project level tranches are common (4.2)**
At what date is the valuation struck?	At the date of the investment	**Incorrect. Financial close (3.2)**
Does the bridge change net present value?	No, because the deferred years are zero	**Incorrect as stated (3.3)**
Is the value impact small next to the return impact?	Yes	**Correct (3.4)**

Verdicts refer to the answer as it was given in the room, not to the person who gave it.

3. The valuation question: NPV, IRR and the anchor date

3.1 What was said

The exchange turned on the date at which a valuation should be struck. The view put forward was that the valuation is performed as at the date of the investment, and that because the intervening construction years carry no cash flows, the discounting produces the same answer either way. The phrasing used was that the internal rate of return creates a difference but the net present value does not, because the two deferred years are zero.

A second participant pushed back, saying that the financial close date should be the point at which net present value is calculated, and observing that in the model itself the valuation is in any event struck at financial close. A third noted that the amount involved is small compared with the impact on the rate of return. That last observation was the sharpest point made, and it is correct.

3.2 The anchor date is the whole argument

Net present value is not a property of a cash flow stream on its own. It is a property of a stream and a date. Change the date you discount back to and the number changes, even though nothing about the project has changed. Discounting the same flows to a point two years later returns the financial close value compounded forward at the discount rate: at a ten per cent rate, roughly a fifth higher. That is not a different view of the same value. It is the same value expressed at a different moment.

So the proposition that value is unaffected because the deferred years contain no cash flows conflates two separate things. It is arithmetically true that a year with no cash flow contributes nothing to the summation. It does not follow that the net present value is unchanged, because the equity outflow itself has moved, deferring it being the entire purpose of the bridge, and because the bridge introduces interest, fees and hedging costs that were not present in the unbridged case.

Fix the anchor. Two structures are only comparable if both are discounted back to the same date. Use financial close, and keep it there across every case and every sensitivity.

3.3 Does the bridge change NPV?

At a fixed financial close anchor, yes. The effect has two components pulling against each other. Deferring an equity contribution by a number of years saves the sponsor the present value of holding that capital over the deferral period. Against that saving, the project pays bridge interest, arrangement and commitment fees, hedging costs, and the cost of the guarantee or letter of credit that supports the facility.

The sign of the net effect therefore turns on a single comparison: whether the sponsor's cost of equity is higher than the all-in cost of the bridge. Where it is, which is the normal case since a facility secured on sponsor credit prices well inside an equity return, the structure is modestly value-accretive as well as return-accretive. Where the bridge is expensive, or where the guarantee is properly charged for, the value effect can turn negative while the rate of return still improves.

The magnitude, though, is second order. The observation made in the session that the amount involved is small relative to the return impact is the right characterisation: the value effect is close to a rounding item next to the movement in the rate of return.

3.4 Why IRR moves far more than value

The two measures answer different questions. Net present value asks how much value the project creates in absolute terms at a stated date. The internal rate of return asks what rate is earned on capital for as long as that capital is outstanding. A bridge barely touches the first and goes straight at the second, because it shortens the period over which sponsor capital is at risk without changing the distributions that follow completion. Compressing the time capital is exposed, while leaving the returns themselves intact, is the most efficient way there is to move a rate of return.

This is also why the rate of return on its own is a poor basis on which to approve a bridge. A structure can lift headline equity returns by a wide margin while adding almost no value, and an expensive bridge can lift the return while destroying value outright. Both measures belong in the paper, at the same anchor date, shown with and without the facility.

Watch this assumption. The modelled return uplift generally assumes the undrawn equity earns the sponsor's full cost of equity elsewhere in the meantime. It cannot: it is committed under a guarantee or letter of credit and is not free to redeploy. Part of the uplift is an artefact of that assumption rather than real economics.

3.5 What this means for the model

Six things follow:

- Strike every valuation at financial close, and hold that anchor fixed across all cases and sensitivities.
- Report value and rate of return together, with and without the bridge, on the same anchor date.
- Charge the full cost of the facility, including guarantee and letter of credit fees and any hedging.
- Test the case in which completion slips past the bridge maturity date.
- Show the gearing ratio through construction, with capitalised interest excluded from equity.
- State the discount rate, and the basis for it, on the same page as the result.

4. How an equity bridge loan works

4.1 The basic idea

An equity bridge loan is a short-tenor facility that funds, during construction, the equity the sponsors have already committed to contribute. The lender is lending against the sponsors' obligation to inject that equity, supported by a guarantee or standby letter of credit, rather than against the performance of the project. At or shortly after completion the sponsors make their injection, and that injection repays the bridge. The equity is not avoided. Its timing is moved.

4.2 Where the bridge sits in the finance documents

In a typical limited-recourse structure the bridge is deliberately kept outside the senior package. The bridge facility agreements are not included in the defined term for Finance Documents, and the bridge lenders are not Finance Parties under the common terms agreement. That separation is the reason a standalone subordination and retention deed exists: it is the instrument that ranks the bridge providers against the senior lenders, restricts what they may enforce, and regulates what they may receive and when.

Structures vary more than the generic description suggests. The facility may sit at a holding company, structurally subordinated to everything at project level, or at the project company itself, frequently tranched so that each sponsor's share is a separate facility on a several rather than joint basis, with its own guarantee, its own hedge and its own account. Neither shape should be assumed without reading the documents.

4.3 Who actually funds bridge interest during construction

It is correct that the contractual obligation to pay bridge interest is the project company's, not the senior lenders'. The senior lenders have no liability for it. But that answers the question of who owes the money, not the question of where the money comes from, and the two were being run together in the discussion.

Construction-phase bridge interest and fees are typically brought inside the definition of Capital Costs, and Capital Costs are Project Costs. Project Costs are paid out of the proceeds accounts. Both senior disbursements and equity contributions are paid into those same accounts, and every senior drawdown is conditional on the debt to equity ratio remaining within the base case. The two sources therefore fund costs in the base case gearing proportion.

The consequence is that senior debt funds a share of the bridge interest. It is not carried by equity alone. The illustrative split quoted in the session was a generic expression of exactly that discipline, and the challenge that prompted it was well founded.

Short answer. The company owes the interest, but it is funded from the proceeds accounts in base case gearing proportion, so senior debt pays a share of it. Both halves of that sentence matter, and the answer given in the session had only the first.

4.4 Capitalised interest and the gearing test

The one case in which interest is not funded that way is when it capitalises rather than being paid in cash. Capitalisation is normally an election, not the default, and it carries a cost. Capitalised interest is typically excluded from the definition of Equity for ratio purposes, so the capitalised amount increases the funding requirement without counting towards the equity side of the test. A model that capitalises interest without reflecting that exclusion will show a drawdown schedule the documents would not permit.

4.5 Repayment at completion

The bridge is repaid by calling the sponsors' remaining base equity commitment and applying it to the facility. The mechanics matter because the maturity date is fixed while completion is not. Everything therefore depends on the headroom between the expected completion date and the long-stop, and that headroom is the first thing to test in the model.

4.6 Post-completion interest and the distribution lock-up

Where the bridge survives completion, or where interest continues to accrue past it, that interest is generally paid through the distribution accounts rather than as a project cost. This is where a project level bridge inherits a timing problem. Nothing enters the distribution accounts until a set of conditions is satisfied: completion has occurred, the first repayment date has passed, the debt service cover ratio is above its threshold, and the reserve accounts are fully funded. Until all of them are met, the payment is blocked.

Worth stating plainly. A project level bridge can carry much the same delay risk usually attributed to a holding company bridge, because the distribution lock-up sits in front of the interest payment either way.

5. Consolidated FAQ

The questions below consolidate what was asked across the sessions, with the answers the documents support. Where a session answer differed, the divergence is noted.

Q1. What is an equity bridge loan?

A short-tenor facility that funds, during construction, the equity the sponsors have already committed to contribute. The lender is not taking project risk in the ordinary sense. It is lending against the sponsors' obligation to inject that equity, supported by a guarantee or standby letter of credit from each sponsor or its parent. At or shortly after completion the sponsors inject the equity, and that injection repays the bridge.

Q2. Why do sponsors use one?

Principally to lift the equity rate of return. Deferring the cash outflow shortens the period over which sponsor capital is at risk, which is the single most effective lever on a time-weighted return. It also smooths the funding profile and gives sponsors flexibility over when balance sheet capital is committed.

Q3. Is the bridge part of the senior debt package?

Usually not. The bridge facility agreements are typically excluded from the defined term for Finance Documents, and the bridge lenders are not Finance Parties under the common terms agreement. That deliberate separation is why a standalone subordination and retention deed is needed: it ranks the bridge providers behind the senior lenders, restricts their enforcement rights, and regulates what they may receive and when.

Q4. Who is the borrower?

Either the project company or a holding company above it. Where the project company borrows, the sponsors support the facility with guarantees or standby letters of credit. Where a holding company borrows, the debt is structurally subordinated to everything at project level, and the lenders' recourse runs through the shares rather than the project assets.

Q5. What security do the bridge lenders take?

Sponsor credit support rather than project security, which is the essential point of the product. They may also take a pledge over shares at holding company level. In the payment waterfall they rank behind the senior lenders, and the subordination deed usually blocks them from accelerating or enforcing while senior debt remains outstanding.

Q6. Who funds bridge interest during construction?

This produced the sharpest disagreement, and the answer given at the time was only half right. The obligation is indeed the project company's, and the senior lenders have no liability for it. But the interest is funded from the proceeds accounts in base case gearing proportion, so senior debt pays a share of it. Section 4.3 sets out the reasoning.

Q7. What happens if the interest capitalises instead of being paid?

Capitalised interest is typically excluded from the definition of Equity for ratio purposes. The capitalised amount therefore increases the funding requirement without counting towards the equity side of the test, which tightens the gearing ratio at the next drawdown. Capitalisation is normally an election available to the borrower, not the default position.

Q8. When is the bridge repaid?

At or shortly after completion, by calling the sponsors' remaining base equity commitment and applying it to the facility. The equity does not disappear. It arrives later than it otherwise would, and it arrives as a repayment rather than as a subscription during construction.

Q9. What happens if completion is delayed?

This is the principal risk. The bridge has a fixed maturity date but completion does not. If completion slips beyond maturity, the sponsors must fund repayment from their own resources or negotiate an extension, which typically carries an extension fee and a stepped margin. Where the bridge sits at the project company, a delay can also trap post-completion interest behind the distribution lock-up.

Q10. Does the bridge sit at holding company or project company level?

Both are seen. A project company level facility tranched by sponsor is common, with each sponsor's share a separate facility on a several rather than joint basis, each with its own guarantee, hedge and account. It is a mistake to assume a holding company bridge is required, and an equal mistake to assume a project level bridge escapes the timing risk usually attributed to holding company structures.

Q11. How does the bridge affect the equity rate of return?

Materially, and upward. The size of the uplift depends on the deferral period, the gearing and the cost of the facility, but the mechanism is simple: the same distributions are earned on capital that was outstanding for a shorter time. This is the reason the product exists.

Q12. How does the bridge affect net present value?

At a fixed anchor date it changes value by a small amount, whose sign depends on whether the sponsor's cost of equity exceeds the all-in cost of the bridge. The answer given in the session, that value is unaffected because the deferred years are zero, is not correct as stated. Section 3.3 sets out why.

Q13. At what date should the valuation be struck?

At a single fixed date, applied consistently to every case. Convention, and the model itself, use financial close. Re-anchoring to the date of investment does not leave value unchanged; it produces the financial close value compounded forward at the discount rate.

Q14. Does the bridge change the debt to equity ratio?

Yes, in two ways. Drawn bridge amounts sit as debt at the project company until repaid, so reported gearing during construction is higher than the ultimate capital structure implies. And capitalised bridge interest is typically excluded from equity, which tightens the ratio at each drawdown test.

Q15. What are the main risks to watch?

Completion delay against a fixed maturity date; the lock-up conditions gating post-completion interest; the interaction with the gearing test at each drawdown; and the cost of the sponsor credit support, which is a real economic cost frequently left out of the headline return uplift.

6. Model review checklist

Eight checks worth running before the next model version is circulated:

1. The valuation anchor is financial close in every case, including sensitivities.
2. Construction-phase bridge interest sits inside Capital Costs and is funded from the proceeds accounts.
3. The funding split follows base case gearing rather than being loaded entirely onto equity.
4. Capitalised interest, if any, is excluded from equity in the ratio test.
5. The bridge maturity is tested against a delayed completion case, not only the base case.
6. Guarantee and letter of credit fees are charged rather than omitted.
7. Post-completion interest is modelled through the distribution accounts, behind the lock-up conditions.
8. Value and rate of return are reported together, with and without the facility.