



# 5 Key Initial Steps To Loan Success.

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## **KEY STEPS LEADING INTO A LOAN APPLICATION**

Whenever someone is preparing to apply for a loan, whether it be for their first home, a business, a practice or commercial real estate for example, there are specific things that an applicant can do that increases their chances of success.

Lenders, and in particular commercial lenders, make a credit analysis assessment on the strength of an application and the applicant using what is known as the **5 Cs**.

**Credit analysis is governed by:**

### **1. Character:**

- What is the character of the applicant? What experience do they have in this area and industry?
- Lenders need to know the borrower and guarantors are honest and have integrity.
- Do they have a criminal history, or history of judgements, defaults or capacity?

### **2. Capacity:**

- What ability do they have to service the loan?
- Does their current income and/or business revenue support additional borrowing?

### **3. Condition:**

- What are the prevailing market conditions under which an application is being made?
- Do economic conditions require the lender to pull back from lending at all, or to specific industries currently, to mitigate its own risk profile?

### **4. Capital:**

- How much is being requested in the loan and how long is the loan term being requested for?
- How much capital does the applicant have on hand that can provide a buffer for them?
- Depending on the size of the loan, lenders may add specific risk fees and strict lending conditions that determine the repayment of the loan.

### **5. Collateral:**

- What security can the applicant provide to secure the loan?
- Unsecured lending brings with it higher loan interest rates vs secured lending.
- This is what is known as the Loan to Value Ratio (LVR).

**With the above points in mind, here are some things that you can do leading up to applying for a loan that will increase your chances of success.**

### **1. Have all your financial information up to date**

- BAS, financial returns, existing loan payments for, ATO Tax Liabilities.
- If you are self-employed, most tier 1 level lenders require two (2) years of financials to consider your application.
- If you are a PAYG Employee, the last 2-3 payslips will be sufficient.

## **2. Ensure you can provide 6-12 Months of bank statements**

- Lenders are looking for proof of capacity in managing your finances, and genuine savings instead of money that has been gifted.
- It also establishes current and historic spending patterns.

## **3. Check your Credit Report**

- Your borrowing capacity, and ultimately whether a lender will lend to you will be in large part dependant on your Credit Report.
- You can access a free report by logging on to [www.equifax.com.au](http://www.equifax.com.au)
- If you feel there is an error in this report, you can have it rectified before you submit an application.
- Also, be mindful of making lots of application for credit in short spaces of time as it may indicate financial desperation to a lender, and they may reject an application on the basis of this.

## **4. Minimise expenses and discretionary spending for 6 Months leading up to an application**

- Lenders are determining your future serviceability based on your current spending patterns as well.
- If you can minimise what might be considered as ongoing expenses leading up to an application, your loan serviceability will be a lot stronger.

## **5. Get a pre-approval BEFORE a you sign a contract of sale**

- This important step cannot be stressed enough.
- By having a loan pre-approved in advance, it decreases not only the stress to you in hoping you will have your loan approved, but it gives you an indication of what your borrowing capacity will be.

## **ADDITIONAL POINTS IF YOU ARE A BUSINESS OWNER**

### **6. Have an up-to-date Business Plan**

- This provides additional strength to your application, because it provides both to you and lenders what the plan and strategy for your business is.

### **7. Business Forecasting and Cash Flow Projections**

- Most lenders require 12 Months of cash flow projections with the new loan factored in, to see if the business revenue can support additional borrowing.
- Your accountant may be able to help you with this is you are unsure of how to do this.

If you have any questions on this topic or have more questions regarding financing products you can contact Jim Karagiannis at Proximity Capital.