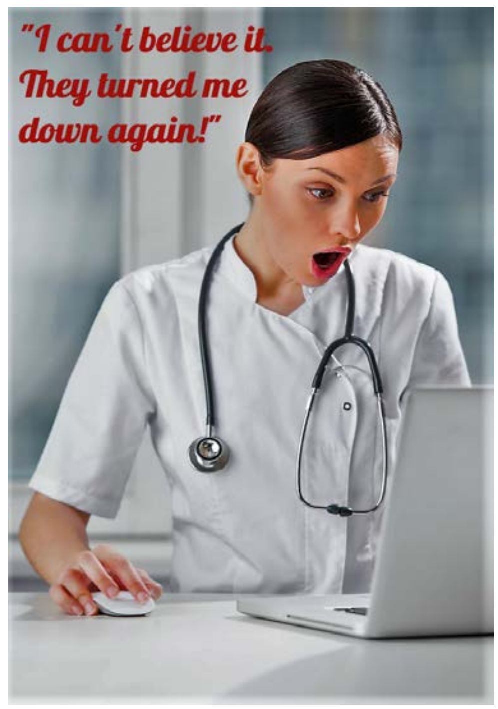
GPA CAPITAL
Grice, Pope and Associates
Commercial and Healthcare Finance

# Top 10 Reasons Loans Are Turned Down

As the saying goes, *"knowledge is power."* GPA Capital created this whitepaper to provide you the *knowledge* of what lender's look for when analyzing a loan package. This will, in turn, give you the *power* to ensure the best rate and terms available in the marketplace. Understandably, some circumstances are beyond your control. However, by knowing the other team's (lenders) "playbook," you can avoid many potential problems you might otherwise have obtaining a loan.

## 1. Applying with the wrong lender. Simple, but the number one reason.

Sometimes the reason your loan is rejected is that you simply applied with the wrong lender. Financial institutions have varying lending criteria, community reinvestment, growth and risk management strategies. Knowing the "sweet spot" of your target bank's investment criteria is critical so that you can create your presentation accordingly. If you apply to the lender directly and you get turned down, your chances of success diminish with each subsequent lender as you have another credit inquiry and possibly another appraisal. Your chances increase when you go through a "knowledgeable" intermediary such as a commercial mortgage broker. A real professional will have solid relationships with multiple funding sources through which he can tailor your capital solution(s).




You may inadvertently stumble into a risk-averse bank. Lending to small businesses is risky for banks. Since the 2008 financial crisis, many banks have raised their lending standards to avoid taking on such risk.


COMPENSATING FACTORS CAN OVERCOME BAD CREDIT

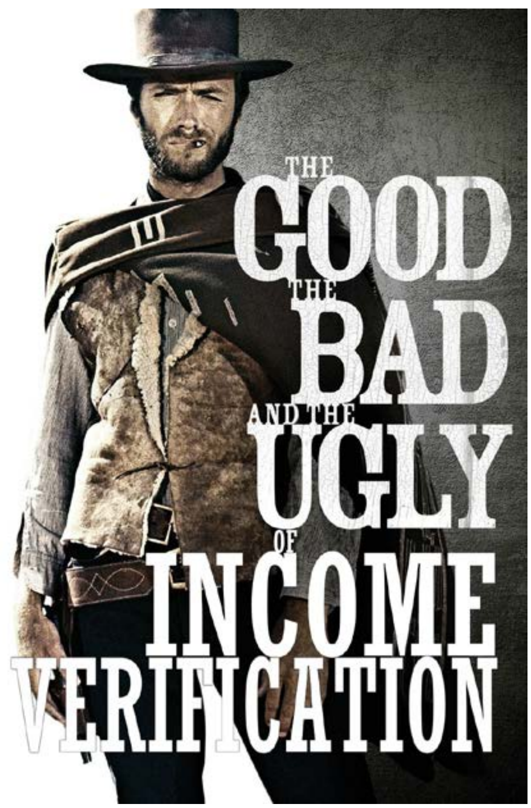
## 2. Lack strong "compensating factors"

In keeping with the relationship theme above, if you have a less than perfect loan scenario (and solid proof thereof) and your application has some problem, issue or you're on the borderline of qualifying, perhaps because your debt-service-coverage-ratio (DSCR) is a bit low, one way to strengthen your application is with compensating factors. A "compensating factor" is “lending lingo” for having some positive aspect in your application to offset other negatives.

Offsetting factors would be larger than normal equity, higher DSCR, higher liquidity, solid proof of diversity and continuity of income. For borrowers without a pristine application, a lack of strong compensating factors could mean your application is *“dead in the water.”*

## 3. Can't properly document your income

This may come as a shocker to many people – especially those who have worked so hard to get that super-high FICO score or to save a ton of cash. But having good credit isn't the “be-all and end-all” in lending. Neither does having a pile of money guarantee your approval.




When sourcing your capital through a traditional lender and seeking the best interest rate, the proof of income is the sum of #7, #14 and #21 on form 1120. Of course, there are some variations, but this is pretty much the rule. This is a perfect example of why you will want to go to an experienced financial professional. He will have alternate loan programs and multiple funding options and sources.

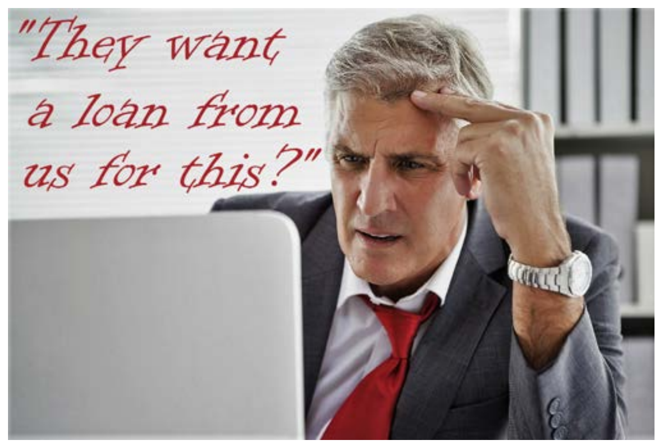
## 4. Inexperienced loan officer or mortgage broker

A close second to the wrong bank is the bad luck of getting hooked up with the wrong loan officer. Do you really feel comfortable entrusting your financial future to a bank branch manager, or worse yet, a minimally paid residential loan officer who knows nothing about commercial loans that's sitting in the lobby of your local bank?

An experienced pro should be able to provide wise counsel, ensuring that all documentation is complete and correct, evaluate your business and then council you on which capital solutions make the best sense for you.

## 5. Your reasons for seeking a loan don't make sense.

When *"all is said, and done"* your complete presentation must make sense, including the **"why."** Why do you need a loan? Is it because you want to purchase a lavish office filled with unnecessary business assets like an exotic fish tank and Apple Watch's for all your employees? They want to make sure that loan will be used to grow your business so that you can pay them back.




Instead, your reasoning for a loan should be a reasonable real estate purchase, financing essential equipment, long-term software and product development, advertising, or covering seasonal sale variance. Your capital investment should demonstrate how it will grow your business and put you in a better position than you are currently.

## 6. You don't have a solid business plan.

Following the narrative above, you will need a solid business plan. Without one, investors probably won't consider your loan application. To make sure that you loan is approved after it's been submitted, make sure that you have an updated and thorough business plan that demonstrates that you've conducted research,


proves that you know your customers (or at least potential clients), has a clear mission statement with goals in place, and contains a calculated estimate of sales and profit projections.

The Small Business Administration also suggests that besides your business plan, make sure that you have gathered and prepared your personal background, resume, income tax returns, financial statements, bank statements, and legal documents like articles of incorporation. It is all part of the package.

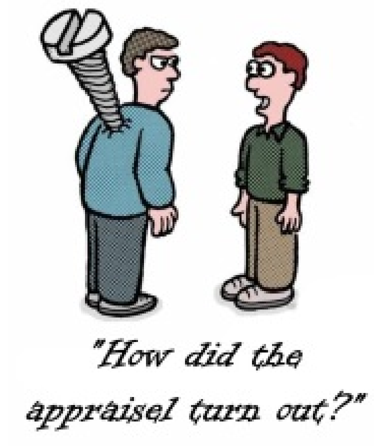
## 7. The outside conditions are too risky.

There are also times when outside conditions can influence the lender's decision. For example, if you want to expand your practice into a multi-disciplinary practice but the additional service is being cut back from payor reimbursements. I once financed a specialty testing machine for $30,000. The reimbursement promised to be $750 per procedure and shortly after acquisition, reimbursement was cut to $70. Knowing what's coming down the pike is critical.


## 8. Picked the wrong type of venture or initiative

Particularly in the healthcare arena, there are those initiatives and specialties which are solid and will always be in high demand. There are others which are looked at dubiously and for one reason or another are not welcomed by the investment community. For a bank that's a "hands-down" denial. Keep an open mind and seek the help of as financial professional who may have access to alternate capital sources.

## 9. Sandbagged by a know-nothing appraiser




Whether acquiring a medical practice or a piece of equipment, a loan in full or in part will be reliant on the asset(s) which the funds are being used to support. Thus, the asset will necessarily be valued by a third-party expert. It is incumbent upon you, the borrower, to make sure you know what that expert knows and how he arrives at the value decision that he does. It is in your best interest to make sure these numbers are accurate. In most cases a bank will not share that with you, but more than likely (as GPA Capital does), your financial team will have an expert on board to assure these numbers are solid.

Be sure you are honest in what you feel your asset is worth and what assumptions you made to arrive at that value. Since the bank orders the appraisal for its own purposes and not yours, many times you or your financial professional must appeal the value decision and have solid evidence of for the appeal.

## 10. Bushwhacked by new rules


How many times have we heard *"we could have approved this loan last year, but the lending criteria have changed, and you no longer qualify."* Banks love to hide behind policy to cater to their specific investment appetite. Be aware and have back up. Research into your endeavor is critical. Your financial professional will have access to these Key Performance Indicators (KPI) and are usually willing to share them with you. If your bank or broker does not have these, go the other way.

**CONCLUSION: GPA Capital is here to help you. Take advantage of our decades of lending experience.**