

Krebs on Credit

*Quick insights for all
your mortgage lending needs*

Issue No. 10 - What are the top 7 reasons why banks deny commercial mortgage loan applications?

You had grand plans to obtain a business loan, whether you were looking to expand your company, refinance your existing loan, meet operating expenses, make renovations, or undergo a management buyout. However, that all came to a crashing halt when your bank said, "No" to your loan application.

Knowing the specific reasons your bank denied your business loan application can help you pinpoint whether you can improve your chances of success with the next potential lender.

Here are some of the most common denial reasons:

1. **Too new or insufficient credit history**
2. **Poor quality of earnings and/or cash flow**
3. **Insufficient collateral**
4. **Too much debt already**
5. **Low credit score**
6. **Weak business performance**
7. **Other (size of company, customer concentrations, size or availability of personal guaranties, insufficient management team, weakening industry)**

Helpful Tip: You Have the Right to Know

Under the federal Equal Credit Opportunity Act (implemented by "Regulation B" or "Reg B"), you have the right to know the specific reasons why your loan application was rejected.

If your business had gross revenues of \$1 million or less in the preceding fiscal year, the law requires the bank to either (1) provide you an oral or written "statement of specific reasons" for the denial; or (2) simply notify you that you are entitled to the statement if you ask for it within 60 days of such notification. See 12 CFR § 1002.9(a)(3)(i).

If your business had gross revenues in excess of \$1 million in the preceding fiscal year, the law requires the bank to provide you a written "statement of specific reasons" for the denial if you make a written request for the reasons within 60 days of the bank notifying you of the denial. See 12 CFR § 1002.9(a)(3)(ii).

Therefore, if your bank has yet to give you the required "statement of specific reasons," you should ask the bank for it. The bank's statement must be "specific and indicate the principal reason(s)" and cannot simply state, for example, "You did not meet our internal standards." See 12 CFR § 1002.9(b)(2).

The key is finding a lender who imposes fewer restrictions than your bank, which will boost your chances of getting approved. No matter what the reason was for your loan being denied, there is a loan program out there for you.

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