



The 5 C's of Credit: What are Lenders Actually Assessing when Applying for a Commercial Loan?

01 CHARACTER

Credit History - Will you repay?

What is typically assessed:

- Equifax Credit Report - Frequency of credit enquires, stability of residence and employment, defaults, insolvencies and hardship
- Bank statements showing historical repayments in full and on time
- ATO Tax up to date
- Experience as an investor and/or business owner

Often if there is a reasonable explanation for issues of credit or account conduct than lenders will still consider a transaction, although not being upfront from the beginning will work against you.

Personal Contribution - Have you got skin in the game?

What is typically assessed:

- Funds to complete the purchase - Equity or Cash?
- Net Asset position

Investors who have put down cash or equity in commercial investment are deemed less risky, as it shows commitment and reduces the lender's exposure.



02 CAPITAL

Servicing - Can you repay?

What is typically assessed:

- Income - Amount and stability of both existing and proposed income (lease term and quality of tenant)
- Expenses - Reasonableness of existing and proposed expenses - insurance, land rates, strata
- Cash Flow - Term and the repayments
- Liabilities - Existing mortgages, credit cards and other debt obligations will be assessed at their limits, and their respective repayments
- Interest rate buffers are also applied generally at 3% for all residential / regulated debt and ~2% commercial

If a full assessment is required your household income, expenses and liabilities will be assessed

Asset/Security/Guarantee - What if you don't repay?

What is typically assessed:

- Security Type - Industrial, retail, office
- Valuation critical risks - environmental, planning or land use issues
- Title - any incumbrances noted (strata)
- Location - some lenders will only lend metro
- Selling period
- Director guarantee - net asset position

If the valuation shows critical risk to the lender, they may not take it as security OR they will take it at a much lesser LVR as determined by them.

External factors:

What are the environmental and deal-specific factors that influence risk and guide lender policies and their credit appetite. Lenders use conditions to understand context: the factors outside of your personal or business profile that may impact the viability of the loan and the overall risk of the transaction.



Ready to explore your commercial lending options?
Get in touch with JLM Financial Solutions today
for tailored advice and a strategy that aligns
with your goals.

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