The "SECRET" to *Unlocking* Bank Financing

Discover the twelve key metrics you must have before a bank will say "yes" to your real estate loan request!

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The “Secrets” to Unlocking Bank Financing

by Brandon Turner | BiggerPockets.com

Do you wanna hear something not a lot of folks know about me?

I used to be a front-end personal banker at a national bank.

Yep, I was the guy who sat in the desk and took loan applications and tried to get you to refinance your house. Man, I hated that job. Really, it was awful.

So much sales pressure, so many hours of staring at the clock. So many reminders that I should be out investing my money, rather than working for it.

However, my job did give me some inside information about how the loan process works. Want to know what I found out? **Loans were like a gun safe.** They could be opened with the right code. Every time.

I used the word “secret” in the title of this book NOT because I believe it’s hidden… only that it’s incredibly tough to find out. Newbies, especially, are completely perplexed as to *why* they are denied a bank loan. So I wrote this guide because I wanted to demonstrate that the lending process is not a mystery. It’s a lock that can be opened with a code. If you enter the right code, you WILL get your loan approved.

Can you enter that code today? Maybe, maybe not.

Unlike the code to a gun safe, this code is not something I can simply tell you; it's something you need to *have*. But I do know that IF you enter it right, if you have what it takes, you are going to get approved. Whether you are looking to buy your first home, purchase an investment property, refinance a current loan, or something totally different, this post will give you the tools you need to crack that code and hear a resounding "yes" from the banker, every time.

Understanding How a Loan Works

Before getting into the details of just how to get your loan approved, let's talk about the basics. How does a loan even work?

Obviously, there are a lot of different kinds of loans and lenders. There are conventional banks, mortgage brokers, portfolio lenders, hard money lenders, private lenders, and more. Each is going to have their own system. However, let me make a few quick points about the loan process: Typically, the person who you are talking with is just a salesperson (like I was). Here's the secret that makes the entire loan-procuring process 10x easier: **They are not the ones ultimately responsible for saying "yes" or "no" to your loan**.

When you go into a bank and sit down with the banker, most likely they are simply there to collect your information and be the contact person for you. *The real decision-maker is in the "underwriter."* The underwriter is an individual trained to look at all the puzzle pieces that the salesperson gives them and approve or deny a loan based on facts. The underwriter knows all the rules, laws, and regulations and can make an informed decision. However, while the underwriter has all the power, the underwriter is usually not very creative and definitely not emotionally involved (purposefully). Therefore, to get a loan approved, you must accomplish two things:

1. Convince the front end sales guy about the worthiness of you and your loan
2. Get the front end guy to convince the back end underwriter about the worthiness of you and your loan

I find that #1, convincing the front end guy, is always easy. They are very quick to say, "Yeah, no problem. We can do that." I ran across this about a dozen times when trying to refinance my recent 5-plex. Over and over, I heard it: "*Yeah, Brandon, no problem. We can do that loan for you, no problem!*" Then six weeks go by, and I get that fateful call, "*Hey Brandon, this is [insert sales banker's name here], and it actually looks like we can't do that loan. You see, our bank will only [insert excuse here]*."

I don't blame the banker, as I used to be one. I had *one whole week* of training, and I was sent out onto the sales floor to secure multi-million dollar loans. In fact, I was paid commission on loan APPLICATIONS in addition to loan closings. In other words, as a front-end banker, *it was in my best interest to get someone to apply for a loan whether or not I thought they could actually get approved*. That wasn't my job; that was the job of the underwriter. I was just collecting leads and acting as "the middle man."

However, while the banker is not the one ultimately responsible for approving your loan, they are the first (and perhaps most important) person to focus your efforts on. Let's talk about that.

The Banker's Role in Getting Your Loan Approved

Let me tell you a quick story about myself — not to pat myself on the back, but to illustrate this point. When I worked at this bank, I was able to close twice as many deals as the other banker who worked there. Twice as many.

We both had the same number of leads, the same number of applications, using the same underwriters. But I was able to do twice as much.

Why?

It's the same reason I am able to buy twice as much real estate as many for almost no money down: *Because I was creative.* You see, most people don't punch the code in right the first time when trying to get a loan approved; there is something wrong with it. A boring banker or underwriter will simply say, "*No, sorry*" and hang up the phone. But I was different. Instead of saying, *"I can't get this loan approved*," I always asked myself "*How can I get this loan approved?*" See the shift in thinking?

Now, I didn't do anything unethical or illegal to get these loans pushed through. Sometimes it was as simple as paying off a small credit card first or changing the loan type. My point is:**When you start looking for a loan, look for a creative banker.** You want someone who is not simply going to say “yes” or “no” like a computer, but someone who is going to fight to get your loan approved.

Perhaps the best way to find this, at least when looking to get a loan on a piece of property, is to ask some real estate agents who their preferred lender is. In my town, 9/10 agents will all say the same person. Find this person – that’s your first step in getting your loan approved.

Now, even the best, most creative banker is not going to think of everything. This is why **it’s ultimately UP TO YOU to make sure your loan gets approved**. No, you didn’t just misread that. Once you finish this post, you’ll have no excuse to simply “apply and pray” for loans. You’ll be able to know, or at least have a very good indication, of whether your loan is going to be approved or denied. No matter how good your banker is, they still can’t turn a pig into a pancake. *It must pencil out for the underwriter.* To make sure it does, let’s talk about how an underwriter thinks…

Understanding How an Underwriter Thinks

Let me tell you a little industry secret: *lenders need you more than you need them.*

Think about that. Without borrowers, a lender makes no money. Why else do you think banks and mortgage companies spend hundreds of millions of dollars on advertising? They need us! So why does it seem so difficult to get a loan?

To put it plainly, a lender follows the exact same advice I give new real estate investors: it's better to do NO deal than a bad deal. In other words, they would rather do no loan than lend on something that will go bad. This seems pretty obvious, but it's the first step in getting your loan approved. A loan is a gamble for the lender, and lenders only want to bet on sure things. This is why it appears so hard to get a loan — *because you have to prove you are a good bet.*

So, what constitutes a "good bet?" Well, I don't know *because I don't know YOUR lender*. However, there is a really easy way for you to find out: Ask them! Start building relationships with your local banks NOW, whether you plan to borrow this year or not. You never know when that relationship will come in handy. Let's move on, and I'll give you some specific on exactly what your banker is looking for.

The 12-Digit Code You Need to Crack to Get Your Loan Approved

Remember: your lender needs to loan out money — you just need to get the safe open!

When an underwriter looks at your loan and is going to issue a "yes" or "no" verdict, they are going to want to make sure you have the right code. This code is the minimum requirements that they require in order to lend. Some of these requirements are set by the bank policy, others are set by the government. Others are simply set by the underwriter themselves. Getting your loan approved is as easy as correctly entering in the code.

Below are 12 digits in that code. Some banks may have fewer digits needed, while others may have more, but these 11 should get you started:

1. Property Type

Certain lenders only loan on certain types of property. So the first thing you should ask yourself is: will the lender lend on this kind of property? For example, if you are looking to purchase a commercial property but the lender you are talking with only loans on residential properties, you'll see a door slam in your face. Trust me, I've been dealing with this.

2. Property Location

Typically, lenders have certain locations they will and will not lend in. Be sure that your lender is okay with the location of your property.

3. Property Condition

Many lenders will only loan on a property in great condition. Why? Because they want to ensure that the property can be sold if they needed to foreclose (and they want to make sure it is not dropping in value because of the condition). Therefore, be sure to check with your lender on what kind of condition they look for. Keep in mind, there are strategies for buying properties that need work, so don't automatically rule out the fixer-upper.

4. Loan Amount

This is something I ran into often in my search for a loan over the past year. You see, the five-plex I am refinancing is a commercial property because it contains five units (anything over 4 is considered commercial). However, most commercial lenders have loan minimums and since I only needed $100,000 for the refinance, I heard a lot of "Nos."

5. Debt to Income Ratio (DTI)

When buying a property, lenders want to know that you can afford it. To determine this, they use a ratio known as "Debt to Income" or "DTI." DTI is a percentage number based on the relationship between your debt and your income. However, there are two different DTI numbers they care about, so let's look at both:

Front End Debt to Income Ratio – Front End DTI is the relationship between how much your total housing payment will be and how much debt you have each month. For example, if your primary residence house payment will be $1000 per month and you earn $3000 in gross monthly income from your job, your current Front End DTI would be 33.3%, because $1000/$3000 = .33. For real estate investors trying to buy or refinance rental properties, this number is not as important as Back End DTI.

Back End Debt to Income Ratio – Back End DTI is the relationship between how much TOTAL debt you have compared to how much income you make. In other words: your total monthly debt payment divided by your total monthly income is your DTI. For example, if your total debt payment each month was $2000 per month and you currently earn $4,000 per month from your job (gross) your Back End DTI would be 50% (because 2,000 / 4,000 = .50).

Every lender has a DTI number they care about, and one of the most important things you can do to ensure your loan gets approved is ensuring you are below the threshold of what the bank likes to see. Typically, you probably want your Front End DTI to be less than 28% and your back end to be less than 36%. When checking with a lender on their DTI requirements, you will typically see these numbers in the following format: (28,36) [where the first number is the front end, second number is the back end.)

6. Loan to Value (LTV)

A lender's primary concern is to "avoid risk." To do this, they want to ensure that no matter what happens in the future, they will be okay. If you continue to pay forever, they are happy with the interest. But if you stop paying, they want to know that they are not going to lose money. To ensure this, a lender wants to know that there is sufficient "equity" in the property to cover the costs if they need to foreclose on you and sell the home. To gauge this, the lender relies on a percentage number known as Loan to Value, or LTV. The Loan to Value is a ratio between the total loan amount(s) and the properties fair market value. In other words:

LTV = Total Loan Amount(s) / Fair Market Value

For example, if a property is worth $500,000 and you are looking to get a loan for $400,000, you are looking at an 80% LTV loan, because $400,000 / $500,000 = .80.

Lenders typically have different requirements for maximum LTV based on the property type. For example, for an owner occupied property using an FHA loan, the lender will go up to 96.5% LTV. However, on a commercial property, a lender may not want to lend above 50% LTV.

If you are an investor, you are likely to find 70-80% LTV the norm for investment properties.

One additional note about LTV: the LTV is calculated using ALL the loans that have a lien on the property, including 2nd or 3rd mortgages. The lender will likely add all these loans together to determine the LTV.

7. Credit Score

This one is pretty self explanatory, but banks want to know that YOU are trustworthy to lend money to so they generally have a minimum credit score that they want to see. This number will depend on the lender and the loan type, but if you are below a 600, understand that it can be difficult to obtain any kind of loan.

To check your credit score, I would recommend checking out CreditKarma.com, which allows you to see your score for free (Like… actually free. No free trial, no credit card required. They make their money by selling credit cards. Yes, kind of ironic.)

8. Repayment Source

Lenders want to ensure that your ability to repay the loan will stay consistent. To do this, they will dig in on your repayment source for the loan. For most borrowers, this means they will look into your job. They will want to know how long you have worked there for and how much you have historically made.

If you just started a new job, it can be more difficult to get approved than if you have had the same job for years. If you are a property investor, the lender will also look at your rental income and may be able to use that income to offset your debt. However, most lenders will not give you any credit for this income unless you have been a landlord for more than two years (remember: they want stability).

Additionally, no matter how long you've been a landlord, you likely will never get 100% of the rental income counted toward you. They will likely give you 70-80% just to be safe on their end.

9. Experience

Next, they may want to know your experience level. This is especially true on large, commercial or multifamily loans. Why? Because the bank knows that you will not be able to pay the payment if something goes wrong. If the mortgage payment on your new apartment complex is $30,000 per month, the lender knows that there is no way that you could pay that if all your tenants left. Instead, they'll want to look at your experience level to make sure you have the skills to ensure a catastrophic event like that will not happen.

10. Cash Reserves

The lender will want to ensure you have the cash to weather any storm. Be sure to have at least some cash in a savings account before applying for your next loan. The amount will depend on the lender and how many properties you own, but every lender is going to want to see something.

11. Recent Credit Changes

A lender wants to know that not only is the property going to be stable – but YOU are going to be, especially in regards to your credit decisions. For this reason, it's important not to do anything crazy with your credit while trying to obtain a loan.

As lender Jeremy David Schachter of Pinnacle Capital Mortgage Corporation says, "*What I always tell my clients, especially during the mortgage process, is keep on doing what you are doing when we initially got you pre-qualified. Don't get tempted by the zero percent credit cards to furnish your home and with new appliances. Don't change jobs, transfer large deposits into your account that can't be sourced and don't increase any existing debt, even after your credit is pulled. Lenders pull a refresh credit report as it is called right before you sign your official documents or close. If there is any new debt or an increase in your balances of existing debt, it could make or break your approval.*"

12. Compensating Factors

Lastly, understand that in the end, loan decisions are eventually brought to a real, live person, so there could be “compensating factors” if you fall short on a requirement or two. For example, if your credit score is a few points shy but the Loan to Value is exceptionally low, the lender may waive the minimum credit score requirement because the equity in the LTV compensated for it. However, there is no way of knowing exactly what your lender will or won’t do, so it’s best to simply try to fit your peg within their square box perfectly.

Now that you have a good idea of how a lender thinks, let’s talk about how to fit your loan into a package that a banker will be excited about.

Get Your Loan Approved By Making Your Lender’s Job Easier

Earlier in this post I mentioned that getting a loan approved is like a code. If you can get the code right, you can get the door to open.

That “code” was outlined above, but a code does no good if you can’t find the keypad. In other words, you might know the 12 digits needed to open a safe, but if you don’t know how to punch those numbers in, those digits will be worthless. So let’s crack this safe together.

As I said before, a lender WANTS to approve your loan. *The banker wants to say yes.* The underwriter wants to say yes. So why do we hear so many “nos?”

Because people don’t enter the digits in correctly! So what’s the best way to make this process go more smoothly? How do you get these digits entered correctly? Simple: *Do the heavy lifting for your banker*.

You banker has a LOT of loans going on at the same time. They are doing a car loan for Bill Johnson, a house refinance for Sally Wiggins, and a broom loan for Harry Potter. Therefore, a banker is likely going to take the path of least resistance and prioritize the loans that will be the quickest and easiest to enter in. So, if you want your loan to get approved and get approved quickly — do the heavy lifting for them, so their job is as easy as possible. You already know the 12 digits that the banker needs to enter, so write these out as detailed and “plain as the nose on their face” simple for the banker, and then provide documentation to back it up. When you speak with the front end banker, ask them for a list of all the items you will need to have. Likely, that will be:

- Tax returns for previous 2 years
- W2s for previous 2 years
- Pay stubs for previous 2 months
- A personal financial statement
- Bank statements
- Purchase and Sale documents for the property
- Descriptions of all your properties

- And probably more.

When the banker gives you this list, don't think of it as a "wish list" but as a "must list." Your job is to compile this information in the most organized format possible. If there is one tip from this post you could remember it is this: there is power in presentation. Go overboard. Have fun with it! When I applied for the loan that was ultimately approved for my recent 5-plex refinance, I organized the entire packet in binder I bought from Staples, complete with a cover page, summary, photos, and divider tabs. There was nothing magical in this – but I simply gave him everything he wanted in the most organized way possible.

Furthermore, I ran this property through the BiggerPockets Rental Property Calculator and took the PDF report that it generated and included that on top of the organized packet. This enabled the lender, in one place, to see all the financials of the whole property. Upon giving him the application, besides being blown away by it's organization, he commented how nice it was to see that summary document. And within a few days I had a full loan approval. (If you are not using this calculator to apply for loans or analyze potential deals, you are really missing out. Check it out today at BiggerPockets.com/analysis.)

Wrapping it Up

I can't guarantee that you'll always hear a "yes" from your lender. But I can tell you that if you don't hear a yes, it's because you either didn't have the right code or didn't punch it in correctly. Start thinking of the loan process like a safe to open – and the whole process becomes much easier and you'll be able to finance far more properties.

About the Author

Brandon started his real estate investing journey a decade ago by reading every real estate book in the local public library, and has read hundreds since. He is currently the VP of Marketing & Communications at BiggerPockets.com, and can be heard weekly on the world famous BiggerPockets Podcast, as well as on the daily #AskBP Podcast.

Brandon makes his home in Western Washington State, where he invests in real estate alongside his wife Heather. He is also the author of The Book on Investing in Real Estate with No (and Low) Money Down