



# Loan Applications & Creditworthiness Reference

Quick Guide to Understanding Loan Applications

## The 5 Cs of Credit

- **Character:** Credit history and payment behavior
- **Capacity:** Ability to repay based on income and DTI
- **Capital:** Assets and down payment amount
- **Collateral:** Assets pledged to secure the loan
- **Conditions:** Purpose of loan and economic factors

## Credit Score Ranges

Score Range	Rating	Loan Impact
750-850	Excellent	Best rates, easy approval
700-749	Good	Competitive rates, likely approval
650-699	Fair	Higher rates, may need conditions
600-649	Poor	High rates, difficult approval
<600	Very Poor	May be denied or require cosigner



## Required Documents

- Government-issued ID
- Social Security Number
- Proof of income (pay stubs, tax returns)
- Employment verification
- Bank statements (3-6 months)
- List of assets and liabilities
- Proof of residence

## ✓ Application Best Practices

- Check credit report before applying
- Correct any errors on credit report
- Shop multiple lenders within 14-45 days
- Don't apply for new credit beforehand
- Gather all documents in advance
- Know your budget and limits
- Read all terms carefully

## 📊 Debt-to-Income Ratios

- **<28%:** Excellent (housing)
- **<36%:** Good (total debt)
- **36-43%:** May qualify with conditions
- **>43%:** Difficult to qualify
- Calculate:  $(\text{Monthly Debt} \div \text{Gross Monthly Income}) \times 100$

## 💡 Credit Improvement Tips

- Pay all bills on time
- Keep credit utilization below 30%
- Don't close old credit accounts
- Diversify types of credit
- Dispute inaccurate information
- Limit hard credit inquiries

⚠️ **Important:** Shopping for loan rates within a short period (14-45 days) counts as a single credit inquiry, minimizing impact on your credit score. Always compare APR (Annual Percentage Rate) rather than just interest rates, as APR includes fees.

## 🔍 Red Flags to Avoid

- Lenders who don't check your credit
- Pressure to sign immediately
- Unclear or hidden fees

- Guaranteed approval claims
- Requests for upfront fees
- Rates significantly higher than market average