Tips and tricks for a quick decision on commercial mortgage applications

Allica Bank

Your client is in an exciting position – buying a commercial property can be the start of the next phase for their business, mark a period of growth, or signal a change in priorities. It's a transformative moment, but can also be complex and – typically - quite cumbersome.

Many business owners don't actually know what to expect when making an application. And this can make it difficult to know what you can do as an accountant to help it go smoothly.

That's why – from making that initial application, to valuations and all the legal bits – this comprehensive guide outlines the commercial mortgage application process to give you some more confidence about what lies ahead, and share some tips on how you can help speed the process along for your client.

The commercial mortgage application process

Step 1: Find a commercial mortgage provider

To get a commercial mortgage, you need to know where to look. You've got a few options, but the two most popular and most efficient ways are to either work with a broker or to talk directly to your client's bank.

A broker can often access more lending products than you could on your own and will have a wider view of the market, which is great if you are looking for a breadth of options. Also, if your client's cash position is borderline when it comes to loan-to-value ratio (the size of a deposit), it might be best to chat to a broker.

If your client has a relationship manager at their bank, they can be the perfect conduit for any questions, too. If they don't have one, going directly to their bank can still be useful if your client has a strong relationship with them already or they simply want to keep their financial products streamlined.

Top tips

- Use your financial network to its fullest – brokers and bank relationship managers all have unique perspectives and valuable insights to share.

- There isn't a right or wrong approach to take and you can always choose to take a different route. Don't let uncertainty stop you from starting.

Step 2: Getting a decision in principle

Once you have found a lender (either directly or via broker), you may first want to get a decision in principle (DIP).

What is a decision in principle?

A decision in principle is a guide of how much the bank is willing to lend to your client for a mortgage, but it's important to note that this is not a formal credit acceptance. Rather, it's a representation of how much your client's business may be able to borrow according to the lender's credit appetite and criteria for a mortgage (or remortgage).

Getting a DIP is a green light for you to proceed with a full application, safe in the knowledge that nobody is wasting their time.

With some banks this process can take several weeks, but many others will be able to turn it around far quicker. At Allica, for example, our relationship managers will aim to turn around a decision-in-principle by the next working day.

What you'll be asked to share

At this stage, you won't need to submit too much information. It should be an easy process for most businesses to find the following:

- Basic information about your client's business (company number, ownership, and top-line financial figures).
- An estimated value of the property.
- The amount your client wishes to borrow and the size of their deposit (loan-to-value ratio).

The DIP process is a bit like the first steps of due diligence that an investor would take before making a deal. Lenders want to make sure there are no obvious red flags (e.g. an unrealistic loan-to-value ratio) before they go any further. They will also do a few preliminary checks on Companies House and several other data sources to get a high-level look at the business.

If and when you've got your decision in principle, you and your client can then move on to complete a full application.

Top tips

- Getting a DIP is a great way to test the water of whether or not buying a property is on the cards for your client. It won't affect their credit score and won't commit them to anything on behalf of the lender.

- The hardcore detail comes when making a full application. When collecting information for the DIP, this is a good opportunity to get together the additional information that will be required when making a full application, should it get to that stage. You can see what that information is below.

- A rejection isn't the end of the road toward buying a property. Every bank assumes a different risk profile, so you may find that another lender is much happier to provide a DIP.

Step 3: The full commercial mortgage application

If your client is successful with getting a decision in principle, you will then be able to make a full application for them. Having acquired a DIP, you can feel encouraged about their chances of getting full approval – but a DIP is in no way a guarantee of lending, while some banks may also allow you to make a full application without first getting one.

The full application process might bring up some previously unknown risks – things like structural issues in the property or questions about business projections.

What you'll be asked to share

- Information about the business, such as: age, ownership structure, and directors and persons with significant control.
- Your client's sector and place within it.
- Basic trading information, such as the Profit & Loss account, Balance Sheet, and Assets & Liabilities.
- Financials, such as bank statements and/or previous years' accounts.
- Why your client wants to buy the property and how it relates to their current and future position.
- Business plan (which will help them assess risks to the business, management structure and strengths, and how the debt will be serviced).

What lenders are looking for

Overall, lenders are trying to get a fuller picture of your client's business, past performance and future plans, reasons for applying, ability to service the debt, and how the specific property they are looking at fits into that context.

They want to construct a narrative that explains the property purchase as part of a clear and congruent past, present, and future for their business. Debt isn't serviced on past performance, of course, but it's really useful context and anchoring to understand the track record.

The decision

Once you've made your application, it's up to the bank to decide how to proceed:

1. **If it's a yes**, they like the look of your client's business, plans, and financials and are happy to proceed. The bank will issue an offer letter that, in effect, says that they have approved your client for £X credit. Everyone signs on the dotted line and the next step begins!
2. **If it's a maybe**, they might have more questions about your client's financials (e.g. a few more years of accounts or some management information) or the business plan.
3. **If it's a no**, in most cases a good bank won't just say "no thank you" and wave goodbye.

Instead, they should explain why it doesn't work and how they might be able to help the business in other ways (with other lending products or broader advice), to hopefully move towards a healthier position in the future. If you are working with a relationship manager, they can also point you towards other people that might be able to help.

Top tips

- There's no such thing as 'too much information'. The more you have prepared and are ready to share, the easier it will be for lenders to make a decision and save emails and phone calls going back and forth. Gather more years of accounts than strictly necessary, prepare a file on the property, and make multiple copies of everything.

- Share this information as early in the process as you can – ideally on the day you make your full application.

- Don't try to present a certain picture of the business. Instead, share the fullest picture you can. Accuracy matters and lenders don't need your client to be a perfect, flawless business to secure a loan.

- If there is something you think could be a concern for the lender (e.g. a temporary drop in sales), be open and add some context. Showing that awareness and explaining their plans to mitigate or overcome a difficult period can be all that's needed to reassure a lender. They'll also be more likely to find ways to make things work if you're upfront about it, rather than waiting for it to come out in the wash further down the line.

- Management decisions (inputs) can reveal a lot more than the numbers they produce (outputs). Businesses are nothing without the people running them, so offering assurances about how your client operates, not just your bottom line, will help a lot.

- When making business projections, give some context around why you think your client will achieve those figures. One of the best business projections one of our relationship managers said they ever saw had three bullet points beneath each section, explaining the assumptions that were made. It answered nearly every question they would otherwise have had, and made it an easy decision to make.

Step 4: valuation and the legal bits

There are a lot of legal particulars to agree on, assurances required for all parties, and lots of it happens through intermediaries.

It's the part where you relinquish the most control, too, which is never a nice feeling. There are lots of cogs in the machine and administrative tasks, which can cause a lot of hold-ups. Thankfully, if your client has a relationship manager at their bank, they should be able to keep on top of this part for you.

Typically, this stage can take several months (4-6 months is a good ballpark), but it can be done much quicker if the stars align. The necessary first step is that your client makes an offer and the seller accepts it. Once that is agreed, the hard work can start.

Instructing a valuation

The first step is that you client's lender will instruct a valuation — this is their way of checking that the property is worth what it's been listed for. They will almost always use an external property surveyor to conduct this assessment, for both their expertise and impartiality.

This valuation will help the lender see where the price sits against comparable properties and trends within the local area. And, more importantly, will instruct them of any risks or issues (structural damage, environmental issues like Japanese knotweed, or a need for repairs). No lender wants to provide funds for a property that's built on failing foundations.

All of this is to confirm that the amounts of money being exchanged between all parties are fair, representative of the market value, and secure as a line of credit.

Once the valuation is complete and everybody agrees on the price (not always the easiest), the next steps can begin.

A lot of legal leg-work

There are plenty of legal procedures to follow, so I won't go through everything here. Instead, I'll focus on some of the most important ones to at least give you a sense of what's involved.

- Checking ownership – does the seller have the legal right to sell the property, are there any other owners, does anybody else have a claim to the property?
- Reviewing rights – land rights are their own separate beast to ownership and it's important that your client is clear on who owns the ground the property is built on. There are also other rights to consider, e.g. rights of way (will the public be allowed to pass through the premises?).
- Conducting searches – these searches concern the assorted public authorities and departments that relate to the property. For example: drainage and water, environmental, and flood risk.

A lot of these legal steps are out of your hands, but it will help if you/your client are quick to respond to any questions that come your way and are proactive in your collaboration with their legal representatives and the seller.

Top tips

- Stay proactive and stay patient – you can't influence everything at this stage. Sometimes the best you can do is be ready to share information and send responses quickly while the wait goes on.

- We strongly recommend your client appoints a solicitor with strong commercial mortgage expertise. This is a specialist area and someone without that experience will be more likely to miss something or cause delays.

- Ask the legal representative upfront about what you/your client can do to make their life easier (and the acquisition faster).

Step 5: Drawdown

Provided everything so far has gone to plan and everything's been agreed, the exchange and transaction will finally be able to take place. What happens now is:

1. You will be asked to provide details of your client's nominated bank account
2. The bank will create a loan account
3. The money is generated and tied to your client as the liability
4. The funds are exchanged
5. Payments begin, usually the next month (or quarter) after you exchange.

And that's it! There's a lot of information, but the more you know, the easier you can make the process and the sooner your client can move into the next phase of their business. We're sure they'll be very grateful to you!

You can find out more about Allica Bank's commercial mortgage options and how to apply on our commercial mortgages page.

See our commercial mortgages

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