UNDERSTANDING LENDER TYPES

A CONTRACTOR'S GUIDE TO SUCCESS

FTL FINANCE

Consumer credit looks different than it did pre-pandemic. For the first time in a decade, the average credit score in America hasn't increased. In fact, 20% of FICO scores decreased by at least 20 points from 2021 to 2022.

And with high inflation rates, 66% of Americans don't think their finances will improve in 2023. Offering financing for your customers is a great way to address inflation. Instead of paying for a large project upfront, your customers can break it up into affordable monthly payments.

But even as Americans struggle with continuing economic uncertainty, large banks are tightening their lending standards. For a lot of households, this means borrowing money just got even more difficult. But what does that mean for your contracting business? Well, if you're partnered with a larger bank, fewer of your customers could qualify for financing, meaning fewer could afford your services.

But you can avoid this hit to your bottom line (and your customer experience) by ensuring you have financing options for customers at all credit levels. How exactly can you make that happen?

Let's walk through it together.

HOW ARE YOUR HOMEOWNERS APPROVED FOR FINANCING?

To ensure you have financing options for a bigger pool of customers, you first need to understand how lenders make decisions about who they'll lend money to.

This is a process called underwriting, and its purpose is to help lenders determine how likely a borrower is to repay the loan. Underwriters can look at a variety of factors to help them reach a decision. But if you've applied for financing before, you know credit score plays a huge role. FICO scores have only been around since 1989, but you can hardly get credit today without a lender checking it.

In fact, 90% percent of lenders use FICO credit scores to determine if an applicant qualifies for financing.

So, what exactly goes into this score, and why is it so important?

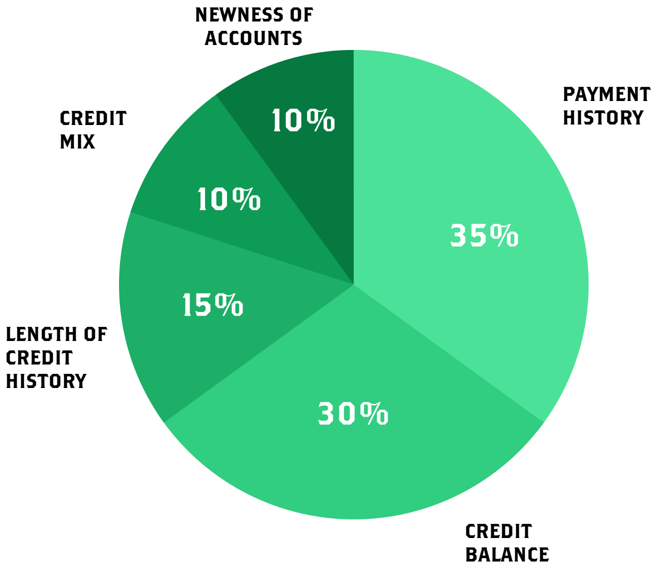
Can one number really tell you how likely it is that someone will pay back their loan?

WHAT MAKES A CREDIT SCORE?

Five factors make up a FICO score: payment history, credit balance, length of credit history, newness of accounts, and credit mix.

Each of these is weighted to determine how "creditworthy" someone is – for example, payment history holds the most weight because lenders want you to pay on time.

But that also means one late payment could drop your score by 100-150 points.



There isn't a lot of wiggle room between credit tiers.

Missing one payment or maxing out your credit card once could quickly drop your score from prime to near prime — or even from super prime to near prime. FICO scores don't care if you have a steady income and only missed a payment because of COVID or some other unforeseen circumstance.

The rules apply to everyone across the board.

Negative items, like missed payments, can also stay on your credit report for around seven years.

While the negative impact to the score fades with time, it can put homeowners who are otherwise in good financial standing in a bind if they need financing for an emergency repair before those seven years are up.

SO, WHAT IF MY HOMEOWNER HAS A LOWER CREDIT SCORE?

Homeowners with low credit scores at the time of application can struggle with finding a lender who will approve them for financing.

Or, if they are approved, their terms are likely to include a higher interest rate. This is a common practice called risk-based lending.

CONSIDER THIS:

40% of American adults have a near prime credit score or lower.

How do they pay for your services if your financing partner denies their application?

Well, they may not be able to. Or they may shop around to find a cheaper contractor or one with more forgiving financing options — which brings us to our next point.

LET’S TALK ABOUT LENDER TYPES

Some lenders, like FTL Finance, are willing to look beyond a homeowner’s FICO score during the underwriting process.

This helps those customers who are reliable but are working on building their credit scores back up.

But we have different underwriting criteria than, say, a large bank or an HVAC leasing company would. Understanding the differences between lender types or categories will help you maximize approval odds for your homeowners when offering them financing.

ONE SIZE MAY NOT FIT ALL

There are three main types of lenders: prime, near prime, and subprime. Each serves a different type of customer, and it’s rare for a lender to serve all customers.

	Prime Lenders	Near Prime Lenders	Subprime Lenders
Homeowner Approval Considerations	Credit score, income, and employment history	Credit score, income, and employment history	Credit score, income, and employment history
Minimum Credit Score Range	Prime (660- 719)	Near prime (620-659)	Subprime or no minimum, depending on lender
Interest Rates Offered to Homeowners	Low interest rates	Competitive interest rates	High interest rates and options like HVAC leasing
Contractor Requirements	Rigid eligibility requirements	Flexible eligibility requirements	Flexible eligibility requirements

Partnering with only one of these types of lenders will leave many of your homeowners unhappy — either with their approval odds or the rate they’re offered. The good news is that there are ways to offer competitive financing options for all your customers.

FINDING FINANCING FOR EVERYONE

Finding a lender that will work for every customer is nearly impossible. Even though a subprime lender may not have strict credit requirements, your customers with prime and super prime credit scores won't be happy with the high interest rates. So, what are you supposed to do? Let's explore a few options.

OPTION 1

DO NOTHING

The truth is that you don't have to have financing options for all of your customers. You can stick with your current partner and call it a day.

Pro: Business as usual; there's no extra work on your plate.

Cons: You may have to deal with more customer frustration from lack of available options. Or, worse, you could lose business from customers who may qualify for something better

OPTION 2

DIY YOUR LENDER MATCHING SYSTEM

They say if you want something done right, do it yourself. If you're already partnered with a prime lender, find a near prime lender and a subprime lender to partner with. You'll have all your bases covered.

Pro: You'll have financing options for most, if not all, of your customers.

Cons: It's a lot more work. You'll have to juggle multiple partnerships, and each partner will likely have different requirements for you as the contractor. This could also lead to tricky conversations with customers, as you'll either have to ask some to apply with all of your financing partners or gauge their credit score to match them with the right one yourself.

OPTION 3

FIND A FINANCING PARTNER THAT PARTICIPATES IN A LENDING WATERFALL

Skip the multiple applications and rejections. In a lending waterfall, your homeowner's application is put in front of one lender to start. If that lender can't approve the application, they pass it on to the next lender, and so on.

Pro: It's less legwork, and your homeowner's application has a better chance of being approved. Plus, lending waterfalls usually check credit with a soft inquiry, which won't negatively impact your homeowner's credit.

Cons: While still a fast process, it isn't near-instant — each lender reviews the application individually. Plus, some platforms limit the number of lenders available to avoid further slowing down the approval process.

OPTION 4

FIND A FINANCING PARTNER THAT PARTICIPATES IN SIMULTANEOUS LENDER MATCHING

Simultaneous lender matching is similar to a lending waterfall, but faster. Your homeowner's application is compared with multiple lenders all at once to find them an approval with the best rate.

Pro: It's faster than waterfall lending, and the platform will likely have much more lenders on it, which increases your homeowner's chances of being approved.

Cons: Many of these platforms are highly customizable, but it does require some configuration on your part. You'll need to do a little homework to ensure it's set up for your business's needs or to integrate it with your other software tools.

LENDING WATERFALL VS SIMULTANEOUS LENDER MATCHING: WHAT'S THE DIFFERENCE?

VS

LENDING WATERFALL

Your homeowner fills out one application. It starts at the top lender and gets passed down until a lender approves it.

SIMULTANEOUS LENDER MATCHING

Your homeowner fills out one application. It's compared with multiple lenders and is matched with the best fit.

CHOOSING A FINANCING PARTNER THAT WORKS

Your customers aren't one-size-fits-all, and neither are financing partners. Whether you decide to DIY your own system or find a financing partner with simultaneous lender matching, take time to evaluate each option. Just because a lender says they offer something doesn't mean it will be the right fit for you.

ASK YOUR (POTENTIAL) FINANCING PARTNER THESE QUESTIONS

WHAT WILL YOU FINANCE?

The minimum and maximum amounts homeowners can borrow vary by lender. Some lenders are also strict about what they will finance. For example, they may not finance service work or may only finance equipment from specific brands.

> **FTL will finance projects from $300 to $35,000 for any equipment brand. We'll even finance service-only work up to $15,000.**

DO YOU HAVE FINANCING OPTIONS FOR HOMEOWNERS WITH HIGHER-RISK CREDIT PROFILES?

Most lenders have programs that charge contractors a fee, some of which will be fairly high. These are usually deferred- or low-interest programs, but make sure you ask your lender if they also have programs at no cost to the contractor. (Some won't!)

> **FTL has an 80% approval rate across all of our programs. Plus, we match homeowners we can't approve with another lender without requiring another application.**

DO YOUR PROGRAMS HAVE CONTRACTOR COSTS?

Most lenders have programs that charge contractors a fee, some of which will be fairly high. These are usually deferred- or low-interest programs, but make sure you ask your lender if they also have programs at no cost to the contractor. (Some won't!)

> **FTL's programs always include options without contractor fees for a wide range of credit profiles and budgets.**

WHAT LEVEL OF TRAINING OR SUPPORT DO YOU OFFER YOUR CONTRACTORS?

You don't need to be an expert in financing to offer it to your homeowners. But you should be able to confidently explain to homeowners the programs you're offering and answer any basic questions about them. Ask your financing partner what resources, tools, or support they have to help you successfully implement their programs into your operations.

> **FTL contractors have access to two dedicated support team members. One provides training on our tools and programs, while another assists with day-to-day troubleshooting.**

WHAT ARE YOUR ELIGIBILITY REQUIREMENTS FOR CONTRACTORS?

Every lender will want to verify that you're a legitimate business. But what information they use to verify varies, and some lenders have additional requirements for what types or sizes of contractors they're willing to work with. For example, they may only work with contractors who have been in business for a certain number of years or who do a minimum number in sales each year.

> **FTL doesn't require any minimums for contractors to be eligible to offer our programs. To get started, you'll simply need to fill out a quick online registration form and submit three documents to verify your identity.**

NOW THAT YOU HAVE THIS INFORMATION, ASK YOURSELF...

Is your current financing partner meeting your needs?

Will this potential financing partner meet your needs?

CONCLUSION

At FTL Finance, we always recommend offering every customer financing; they may not know you have it, otherwise. And while it's true that you can offer just one financing partner, you're likely to see more rejections and frustrated customers.

You can offer all customers realistic financing options by partnering with multiple financing partners — especially partners with a lending waterfall or simultaneous lender matching.

With FTL's unique lending method, our contractors see 80% approval rates, close 30%-50% more jobs, and write bigger tickets. If you'd like to learn more about implementing this in your business, you can request a consultation or schedule a demo with one of our Account Success Managers.