Credit Application

A credit application is a request for an extension of credit. Credit applications can be done either orally or in written form usually through an electronic system. Whether done in person or individually the application must legally contain all pertinent information relating to the cost of the credit for the borrower, including the annual percentage yield (APY) and all associated fees.

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BREAKING DOWN 'Credit Application'

Credit application processes are increasingly becoming faster and more automated as new financial technology systems emerge in the credit market. Technology allows lenders to offer borrowers varying types of credit applications that can be done either in person or individually. Regulation Z governs the disclosures provided in credit applications for borrowers and provides for consistency across all types of loans.

Credit Application Processes

Consumers and businesses have a growing number of providers to choose from when seeking credit. Beyond just traditional lenders and credit cards, borrowers also have the option to choose from many emerging fintech companies offering varying types of loans.

For borrowers who seek more personal interaction, traditional bank lenders offer branches across the nation with customer service representatives available to help borrowers in the lending process. Some banks even offer telecommuting services for discussing loans and completing a loan application over the phone. This type of service is part of the traditional bank model that includes more personal interaction in
banking services. Typical loans that borrowers may seek to apply for in person can include bank lines of credit, mortgage loans and home equity loans.

Technology also allows borrowers to complete a credit application completely on their own through an online application. Credit card applications are typically processed through an online credit application often providing the borrower with an immediate approval. Banks and emerging fintech companies have also increased the online lending options available for borrowers. Lending Club and Prosper are two of the largest online lenders in the U.S. offering loans to borrowers through a fully automated credit application that requires no in person interaction. Banks have also followed this trend adding many new online lending services for both consumers and businesses.

Credit Application Information

In all types of credit applications the information requested is typically the same. A lending decision will be based on a hard credit inquiry which provides details on a borrower’s credit score and credit history. In addition to credit scoring, lenders also base loan decisions on a borrower’s debt to income. Mainstream lenders will typically look for a credit score of 650 or higher with a debt to income ratio of 35% or less. Each individual lender however will have their own standards for credit underwriting and credit approval.

Regulation Z

Regulation Z is a legislation that governs the reporting of credit details to borrowers. This legislation was established as part of the Truth in Lending Act of 1968. It is enforced by the U.S. Federal Reserve Board and the Consumer Financial Protection Bureau. Regulation Z helps to provide consistency across credit disclosures. This consistency is expected to
protect borrowers from being misled by creditors, while also helping borrowers to better understand credit terms and more easily compare products across lenders.