

For small business lenders, whether or not a loan application is approved boils down to basic numbers.

Basically, the debt-to-income ratio for your small business. In other words, how much of your small business's monthly earnings are used to repay existing debt.

As a small business owner, you need the documentation to prove your worth and meet the loan requirements. Here's a guide to the standard requirements businesses must meet as you learn how to get a small business loan.

Understanding Small Business Loan Requirements

Here's a list of information that your lender will want to see:

- business and personal credit score
- annual revenue
- number of years in business
- business industry and size
- business plan and loan proposal (what you want to do with the money)
- collateral or a personal guarantee
- other business financial documentation, including a list of business assets

Why Lenders Have Specific Requirements for Small Business Loans

Why do lenders consider a personal credit score part of borrower qualification? The lender wants to see how you manage your personal debt. That's an indication of your money management skills.

What about risk management? For a lender, various types of small businesses have different risk levels. For example, restaurants and beauty shops have a higher risk level than other types of businesses.

That's because those two types of industries have a higher failure rate than other businesses.

Types of Small Business Loans and Their Requirements

There are three basic types of lenders:

The Small Business Administration (SBA) – Learning how to get an SBA loan is often easier for small businesses than working with other lenders. You'll need a very good credit score (690 or higher), but you'll get a good interest rate and long SBA pay-off terms. You must meet the definition of a small business, which varies by industry. You must be current on all existing business loans and no defaults. SBA loans are obtained through SBA-approved banks. The SBA also has start-up loans and microloans (the borrowed amount is less than \$50,000).

Traditional Lenders – Traditional lenders are banks and credit unions. The typical loan requirement is an annual revenue of \$250,000, a credit score of 690 or higher, and at least a two-year business history. Learn how to get a business loan from a bank here.

Alternative Lenders – Alternative lenders include online lenders, fintech companies, and those providing short-term loan options. The average loan requirement is an annual revenue of \$100,000, six months in business, and a minimum credit score of 500.

Essential Small Business Loan Requirements

Let's break down the common small business loan requirements.

A Good Business Credit Score

A good business credit score is the basic requirement. You'll need a minimum score of 500 to apply for a loan with an alternative or online lender. Lenders rely on your business credit score as an indicator of eligibility. With a poor credit score, an applicant is considered high risk.

Financial Statements

There are a number of loan documents you'll be asked to provide:

- personal and business tax return
- personal and business bank statements
- business profit and loss statements
- balance sheets
- income statements showing cash flow
- commercial leases
- the business license
- articles of incorporation (if applicable)
- proof of collateral
- information about existing debts
- legal contracts
- your business plan (including financial projections).

Collateral and Personal Guarantees

Examples of collateral from your business would be equipment, real estate and inventory.

A personal guarantee means you agree to raise money from personal assets. A personal guarantee means that you'll pay the loan using proceeds from personal assets if necessary.

Business Plan and Projections

A lender wants to know two main things: how you plan to use the money and how you plan to pay it back.

Documentation is important and one of the key pieces of documentation is your business plan. Before you apply for a loan, it may be time to take it out, dust it off and update it.

The business plan you wrote when you started the business most likely has evolved. It should be very professional and representative of how you do business.

Top Tips for Meeting Small Business Loan Requirements

You can secure financing by taking steps to make your application the best it can be.

Here are some tips and strategies:

Improving Your Business Credit Score

Good financial habits boost your credit score. These good habits are practices such as paying down debt, including credit cards. Also, pay bills not only on time but in full when due.

If you've done that and still haven't reached the credit score number you want, it's time to take a deeper look into the report. There may be some long-ago unpaid bill that is crushing your number – even something as simple as an old electric bill from a previous address. Look into your report and dispute/clear up any inaccuracies.

Preparing Thorough Financial Documentation

Thorough documentation is important, of course. How you present, it is just as important.

For example, present all the paperwork required as a package. Don't make the lender shift through a series of emails with attachments you've sent. You're not the only applicant the loan manager is considering – make the process as easy as you can for that person.

How do Online Lenders Differ from Traditional Lenders in Terms of Small Business Loan Requirements?

This is one of the top loan questions that small businesses have when considering different types of lenders. Online lenders require business credit scores of 500 or better. An online lender is more likely to rely on the business's cash flow report and history. The annual revenue requirement is also lower at \$100,000 (compared to \$250,000).

However, interest rates may be higher with shorter loan lengths.

FAQs: Small Business Loan Requirements

To review, here's what you need to know.

What are the basic requirements for a small business loan?

A credit score of 500-690, annual revenue of \$100,000 to \$250,000, and lots of documentation.

How can I improve my chances of getting a small business loan?

Submit an organized application with an updated, professional business plan.

Can I get a small business loan with a low business credit score?

You can get a loan from an alternative lender with a 500 credit score, but you'll pay higher interest rates over a shorter term (higher monthly payments).

What role does collateral play in the small business loan application process?

Collateral such as business equipment and real estate proves that if you default, the lender will still be paid.

How long does it typically take to get approved for a small business loan?

For a traditional lender, the process may take at last two months. For an online lender, the process can be completed within several days.

How does debt to income ratio affect small business loan requirements?

Debt to income shows how much of your small business profit goes to repaying existing debt. Lenders don't want to see a small number that's the answer when debt is subtracted from income.

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