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Getting your business loan application denied can be discouraging and frustrating, especially if you've been looking forward to that additional cash injection. However, if you've been in the business long enough, you know that it happens to many small business owners.

Lenders reject loan applications for several reasons, and knowing what those reasons are can do a lot in improving your chance of approval in the future. We've outlined seven possible issues that might lead to business financing denial, along with some quick fixes to each problem.



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1. Poor Credit History

Poor credit scores or lack of credit history are among the most common reasons businesses get rejected for business financing. Credit scores help banks and other lenders determine your creditworthiness – or how likely you (or your business) are to pay them back. Generally, poor credit scores (below 650) raise a red flag to lenders and may result in outright business loan rejection.

A lot of factors come into the determination of your credit score. For instance, a recent bankruptcy could significantly bring your score down. The same goes for late payments and loan defaults. These will give the lenders the impression that you cannot handle your finances properly, which negatively affects your image as a borrower.

If a poor credit score is the main reason your loan application was rejected, here are a few things you can do to fix it.

- Pay your debt obligations on or before the deadline
- Work with suppliers or lenders that report to the major credit bureaus
- Check your credit report regularly and report mistakes to the credit bureau ASAP

Some lenders may also offer financing options to businesses with poor credit scores. The downside is they may charge a higher interest rate to mitigate the risk.

2. Poor Cash Flow

If you're applying for a loan, it's also important to consider your business' cash flow on top of your credit scores. Suppose there are gaps in this area or your company often experiences periods where revenue doesn't match expenses (and debt repayments). In that case, lenders may reject applications based on that irregularity alone.

Lenders know that many small businesses fail because of poor cash flow management. With that, it's crucial to monitor your business' cash inflow and outflow. Make sure that there's more coming in than out (at least for most of the year). Sometimes, late-paying customers

can affect your cash flow, so make sure to adopt a more efficient process of payment collection (e.g., investing in robust accounting software).

3. High (or Too Low) Credit Utilization

Your credit utilization rate simply refers to the percentage of credit you used compared to the credit available to you. With a high credit utilization rate, lenders will assume that there won't be enough cash to cover the additional financial obligation. On the other hand, too little credit utilization may demonstrate your poor experience in debt management, which also raises a red flag to small business lenders.

Businesses looking to apply for business financing should aim for a credit utilization rate of no more than 30%. That means if you have a credit limit of \$100,000, you must keep your credit card balances below \$30,000.

If you have a high credit utilization rate, one of the things you can do is pay down some of your existing debts, like credit cards. It's also important to note that closing credit card accounts can decrease the amount of credit available to you, thus, increasing your credit utilization rate. That said, even if you've paid your credit card debt in full, keep the account open as much as possible.

4. Lack of Collateral

Lenders, especially banks, may require small businesses to pledge collateral to guarantee the loan. It could be commercial real estate, equipment, or other valuable business properties. Unfortunately, most small businesses may not have enough assets on their balance sheets to support the application. As a result, they often get turned down for business loans. Even if you have some assets, if the lender doesn't view it as valuable enough, it will be harder to qualify for a business loan from banks.

If you're faced with this situation, consider other forms of financing. For instance, invoice financing lets you use your

customers' outstanding invoices to advance capital. Other lenders may also offer unsecured business lines of credit to small business owners that don't have enough assets. You can utilize these forms of financing until you have enough collateral to secure a more comprehensive business loan.

5. Short Business History

Lenders generally require businesses to have at least two years of business history before approving business loan applications. That is because such companies typically haven't established enough credit or profitability history, making it harder for lenders to gauge their ability to repay the loan.

Startups commonly get rejected for business financing because of their lack of business history. Fortunately, they have more options now than ever. Alternative lenders may offer startup loans to companies that are less than a year old. The only downside is you might have to pay a higher interest rate. Nevertheless, it's a viable option to consider if your business needs additional financing but you haven't been in business long enough to qualify for larger loans.

6. Risky Industry

Traditional lenders may consider some industries riskier than others. For instance, service-based businesses like restaurants and construction are considered high-risk because of seasonality and high failure rates. Gambling or CBD businesses may find it challenging to secure financing from traditional banks considering the ever-changing regulations regarding their operations.

That is not to say that such businesses cannot acquire business financing. If your business is high-risk, you can seek funding from lenders specializing in lending to businesses in your industry. Not only will you increase your chances of approval, but you might even get better financing terms.

7. Lack of Documents

No matter how stellar your credit history or revenue is, you'll most likely be rejected for business financing if you don't submit the required documents. These documents serve as proof of your creditworthiness, convincing lenders that your loan application is worth approving. If you lack the necessary documents, lenders will have no way of confirming your credibility.

The next time you apply, be sure to have a checklist of what the lenders need. Aside from the primary documents like business leases, registrations, identification, bank statements, and tax returns, you'll also need to prepare additional documents like:

- Credit reports
- Balance sheets
- Profit and loss statements
- Cash flow projections
- Articles of incorporation
- Business contracts

If you're not sure what documents to prepare, it's best to give the lenders a call and ask them what they usually require.

Bottom Line

Applying for business financing is not for the faint of heart. Rejections can happen, and they can be frustrating. However, by understanding the most common reasons for business financing rejection, you can fix them and improve your chances of approval in the future.

About the Author

Matthew Gillman is a business financing expert with more than a decade of experience in commercial lending. He is the founder and CEO of [SMB Compass](#), a specialty finance company providing education and financing options for business owners.