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Small business owners don’t always get approved for financing for various reasons. Some companies may have an easier time getting approved than others, even though they all met the minimum loan application requirements.

If you’ve recently been denied a loan, one of the factors affecting your lender’s decision is your business type. This article will explore how this affected your loan application, which types of businesses are risky for lenders, and what you can do to secure funding.

Why does your business type matter to lenders?

Lenders will take a holistic look at your credentials and submitted requirements before approving your loan. Some of the essential things they put into consideration are your personal and business credit scores, time in business, location of business operations, and your comprehensive business plan. This also includes your business type and your industry.

In general, new businesses and startups are frowned upon by traditional lenders like banks and credit unions for economic reasons. Many economists and policymakers have long explained that smaller companies have a harder time obtaining financing than their larger counterparts due to lack of collateral, poor credit history, insurmountable debts, and so on.

There are about 32 million small businesses in the United States. In a Federal Reserve data, it was revealed that 30% of small business loan applications were denied, and 26% only qualified for a portion of the funds they initially requested. Some 63% of loan applicants did not apply for financing for fear of being denied a loan.

On top of business size, lenders also factor in your business industry. During the pandemic, many businesses have been gravely affected by lockdown implementations and operational restrictions; however, this experience is quite uneven. Industries like travel, accommodations, food services, transportation, and educational services felt the repercussions of these measures, leading many of them to shut down permanently.

For this reason, lenders become wary of lending to small businesses in these industries. With economic instability, lending to these companies is not only riskier; it is also more expensive. Most traditional lenders wouldn’t take the chance to loan you money, knowing that your business might fold before you’re able to repay them.

There is the uncertainty of whether SMEs could cope with shifting market changes. Despite that, there are ways you can secure funding regardless of how big or small your company is, or what type of business you’re running.

Is your business type affecting your loan application? Here’s what to do

Your business type and industry are just one of the factors lenders will use to determine if you are eligible to get a loan. There are other things you can show to prove your creditworthiness. Here are some of the most effective ways.

1. **Show a high credit rating**
   Your credit score is a summary of your credit history, which tells whether you have been paying off your bills and debts on time. When your credit score is high, it shows that you are on top of your payables. A low score indicates that you are a risky borrower.
   The Fair Isaac Corporation (FICO) determines your credit score (also called FICO score), which is a three-digit number that summarizes your credit report. To secure a small business loan, your credit score must be at least 600.

   There are five elements involved in getting a high FICO score, which is your payment history (35%), total debts incurred (30%), length of credit history (15%), credit mix, or the diversity of credit types you've had over time (10%), and new credit applications (10%).

   Knowing these five elements can be helpful, especially if you're trying to increase your credit score.

2. **Maintain a positive cash flow**
   Showing a positive cash flow is essential for small businesses, especially when applying for a loan. Lenders want to see that your company is healthy and generating cash flow so that they know you will be able to repay the loan on time. A positive cash flow means that a company has more cash coming in than going out.
   There are many ways to boost your cash flow. For example, market your products and services more effectively or offer discounts to attract new customers. On top of that, you can cut back on unnecessary costs by finding cheaper suppliers or outsourcing some of your work.

3. **Provide collateral**
   Considering that most small businesses are risky in the eyes of lenders, you need to put up collateral to

minimize that risk, especially if you're applying for a small business loan from traditional lenders.
Collateral is important for lenders because it provides them with some assurance that they will be able to recover at least a portion of their investment if the borrower defaults on the loan. For small businesses, collateral can also help them secure a loan by increasing the lender's confidence in their ability to repay the debt.

Your collateral could be anything from your home or vehicle to your inventory or equipment. Just remember that if you're unable to repay your loan, lenders have the right to seize the collateral.

4. **Explore other financing options**
Lastly, try exploring alternative financing for your business. As a small business owner, you have a myriad of options to gain capital from alternative lenders who may be a better fit for your needs.
Working with alternative lenders to secure more cash for your business is a great option, especially if you don't have the best credentials to get a loan from banks.

Some lenders are lenient when it comes to your credit score or business type. As long as you can prove your ability to pay on time, your chances of getting approved for any small business financing will increase.

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.