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Deciding to take on business debt is a difficult and necessary decision that most business owners face at some point. If you're thinking of applying for business financing, you're not alone. In fact, in the last 12 months, 45% of small business owners have applied for a business loan.

And, currently many business owners are considering financing options to simply deal with rising costs and inflation. According to the latest Small Business Index report, more than seven out of ten small entrepreneurs said that the rising cost of goods and services due to inflation had taken a toll on their operations within the past 12 months. The new survey revealed that about 50% of small companies have dealt with inflation by getting business financing.

Regardless of what form of debt you take on, it's important to remember that the biggest point of debt is that you eventually have to pay with interest over a certain period. For many small businesses, taking on debt can actually benefit the business in the long run, and when used for the right reasons, access to financing can serve as a breather for many entrepreneurs who are struggling to keep their business afloat.

If you think you're ready to apply for financing, specially a business loan, here are some questions to ask yourself first filling out an application. Click To Tweet

1. **Is getting a loan the only option?**
   When your business is new, you might think that applying for a small business loan from traditional banks or credit unions is the only way to get capital. The truth is, there are a myriad of options for you to get financing.

   To fund your business, you may also do crowdfunding on websites such as Kickstarter, GoFundMe, Patreon, and Indiegogo—all these sites can help you raise funds from supporters.

   On top of crowdfunding, you may also ask for capital from friends or family, or seek out investors. This can be done in a few ways: through venture capitalists, angel investors, or private equity firms.

2. **What will the capital be used for?**
   One of the most important questions you should ask yourself is what you're going to use the money for. Most new small business owners make the mistake of getting the maximum loan amount they can get from lenders without considering why they need it in the first place.

   Before even talking to a lender, make sure you know why you need more capital: do you need to pay your employees? Is it getting more difficult to make ends meet? Do you need to purchase new equipment for your business?

   Knowing the purpose for taking out a loan allows you to find the best financing option. For example, if you only need to access capital from time to time, a business line of credit might be a better option for you than a term loan.

3. **Can I make the monthly payments?**
   Since small business loans are like any type of financing, you need to know if you have the means to repay it with interest monthly. Check whether you have any outstanding balances or if you can squeeze in the repayments in your cash flow.

   Also, make sure you're not compromising your business' emergency fund to pay for your monthly terms. At the end of the day, you still want to have enough financial cushion for tough situations.

4. **Which type of financing best suits my needs?**
   Aside from small business loans from traditional creditors, you may also access funding from alternative lenders. Alternative small business loan lenders typically offer more flexible payment terms and are not too strict regarding your qualifications. You may even have access to funds in as fast as 24 hours.

   Some alternative loan solutions you may apply for are a line of credit, quick cash loans, invoice factoring, and equipment loans.

5. **Can I provide collateral?**
   Since alternative lenders give small business owners more opportunities to access capital without rigorous application, they will need to reduce their risks. Seeking collateral from borrowers is one way for lenders to reduce their risk of lending you money.

   Collateral is important for small business loans because it gives the lender a way to recoup their losses if the borrower defaults on the loan. Collateral also provides the lender with peace of mind knowing that they have some security in case of default. Lenders will typically require collateral for business loans over a certain amount, so it is important to be aware of this when applying for financing.

6. **Are my credit ratings strong enough?**
   Lenders will always refer to your personal and business credit reports when seeking capital. Your personal credit score is a three-digit summary of your creditworthiness, which gives lenders an overview of your behavior regarding money.

   The same goes with a business credit score: a business credit score is a number between 0 and 100 that demonstrates your ability to pay for business expenses on time.

   Generally, a good personal score should be at least 680; a good business credit score is 70 and above. Having a strong enough personal and business credit allows you to have more access to capital at better terms and rates.

Talk to experts about your options

As you do your research, it's important to consider speaking with lenders and financial experts. They know what financing solutions are ideal for your business and your qualifications. That way, you can avoid paying for steep funds for getting the wrong type of loan or getting financing at the wrong time.

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.