

The Duquesne University Small Business Development Center One-Year MBA Fellows Present:

How to Secure a Business Loan Successfully

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Executive Summary

In conjunction with the Duquesne University Small Business Development Center (SBDC), the following report addresses how small businesses successfully secure financing by outlining real lender expectations. It details how clients can present themselves as low-risk, credible borrowers, and can be used by SBDC consultants during advising sessions. The target audience is early-stage entrepreneurs, existing small business owners, startups seeking first-time financing, and businesses seeking expansion or working capital.

Understanding Business Lending

A lender is a financial institution or organization, such as a bank, credit union, nonprofit, or an individual, that provides money to businesses with the expectation that it will be repaid over time with interest. They earn money through interest payments and fees, which makes minimizing risk their top priority. Therefore, every lending decision is based on balancing risk versus return. The “return” is the interest the lender earns, while the “risk” is the possibility that the borrower will not repay the loan. Because of this, lenders carefully evaluate each applicant to determine how likely they are to repay the loan fully and on time. This evaluation is grounded in financial evidence, not just the idea or potential. This is why many business loan applications are declined. Common reasons include low or inconsistent cash flow, poor credit history, high existing debt, lack of collateral, or incomplete documentation. In many cases,

businesses are not denied because their idea is bad, but because they have not yet demonstrated the financial stability or preparation that lenders require.

While this evaluation is often grounded in historical financial evidence for established businesses, startups are assessed differently. Because they typically lack operating history, lenders place greater emphasis on the strength of the business plan, the credibility of assumptions, and the clarity of projected cash flows. In these cases, the borrower must demonstrate how and why the business will generate sufficient revenue to repay the loan.

Key Differences: Startups vs. Established Businesses

While lenders evaluate all businesses based on risk and repayment ability, the way they assess that risk differs significantly depending on whether the business is established or a startup. The table below highlights these key differences:

Criteria	Established Businesses	Startups
Primary Evaluation Basis	Historical financial performance	Future projections and assumptions
Financial Evidence	2–3 years of financial statements, tax returns, revenue trends	Limited or no historical data; relies on projected financials
Cash Flow Analysis	Proven, consistent cash flow from operations	Projected cash flow with detailed monthly breakdowns
Business Plan Importance	Supports existing performance	Central to the entire evaluation

Risk Assessment	Based on past performance and trends	Based on credibility and realism of assumptions
Documentation Focus	Historical records and verified financials	Forward-looking documents, market research, and projections
Burden of Proof	Demonstrates stability and consistency	Must prove future viability and repayment ability

Types of Business Loans

There is a variety of financing options available for small businesses, each designed to meet different operational and growth needs. Selecting the appropriate loan type is an important step in the borrowing process, as lenders evaluate not only the borrower but also whether the loan structure aligns with the intended use of funds. The following paragraphs and chart outline the different options.

The most common type of financing is a term loan, which provides a borrower with a lump sum of capital that is repaid over a fixed period with interest. Term loans are typically used for long-term investments such as expanding operations, purchasing real estate, or funding major renovations. Repayment terms can range from a few years to several decades. Lenders generally expect strong credit histories, consistent revenue, and a demonstrated ability to manage debt (*U.S. Small Business Administration, 2023*).

In contrast, a business line of credit offers greater flexibility. Rather than receiving a lump sum, the borrower is approved for a maximum credit limit and can draw funds as needed. Interest is only paid on the amount used,

making this option particularly useful for managing short-term cash flow gaps, covering seasonal expenses, or handling unexpected costs. Lenders still require evidence of stable cash flow, as repayment ability remains a key concern.

Another major category of financing includes loans backed by the U.S. Small Business Administration (SBA). They are provided by approved lenders and partially guaranteed by the SBA, reducing the lender's risk. There are two main types: 7(a) and 504 loans. The 7(a) covers a broad range of business needs, including:

- Acquiring, refinancing, or improving real estate and buildings
- Short- and long-term working capital
- Refinancing current business debt
- Purchasing and installation of machinery and equipment, including AI-related expenses
- Purchasing furniture, fixtures, and supplies
- Changes of ownership (complete or partial)
- Multiple purpose loans, including any of the above

The maximum loan amount for a 7(a) loan is \$5 million. Eligibility factors are determined by what the business does to generate income, its credit history, and where the business operates (*U.S. Small Business Administration, 2026*).

On the other hand, a 504 loan provides long-term, fixed-rate financing for major fixed assets that promote business growth and job creation. This includes items such as real estate or large equipment. The maximum loan amount is \$5.5 million (*U.S. Small Business Administration, 2026*). Eligibility is determined by the following criteria:

- Operate as a for-profit company in the United States or its possessions
- Have a tangible net worth of less than \$20 million
- Have an average net income of less than \$6.5 million after federal income taxes for the two years preceding your application

For businesses seeking to acquire machinery or technology, equipment financing is another option. The equipment being purchased typically acts as a guarantee for the loan. This reduces the lender’s risk and can make it easier for businesses, especially those with limited credit history, to qualify. Finally, microloans provide smaller amounts of funding, averaging at \$13,000. These loans are particularly valuable for startups, early-stage entrepreneurs, and underserved populations who may not meet traditional bank requirements. They can be used for inventory, supplies, furniture, or equipment, but cannot be used to pay off existing debt or purchase real estate (*U.S. Small Business Administration, 2024*).

Loan Chart

Loan Type	Best For	Typical Amount	Repayment Structure	Key Requirements
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Term Loan	Expansion, large purchases, real estate	\$25,000 – \$5M+	Fixed payments over set term (years)	Strong credit, steady revenue, financial history
Line of Credit	Short-term cash flow, emergencies	\$10,000 – \$500,000+	Revolving; pay interest only on what is used	Consistent cash flow, good credit
SBA 7(a) Loan	Working capital, general business needs	Up to \$5 million	Long-term, flexible repayment	Detailed documentation, solid business plan
SBA 504 Loan	Real estate, major equipment	Up to \$5.5 million	Long-term, fixed-rate	Strong financials, asset-based use
Equipment Financing	Purchasing machinery or equipment	Varies (based on equipment)	Fixed payments tied to equipment life	Equipment serves as collateral
Microloan	Startups, small funding needs	Up to \$50,000	Shorter-term, fixed payments	Basic credit, smaller scale, often training included

Five Core Lending Criteria

When evaluating loan applications, lenders focus on five core lending criteria. Understanding and preparing for these areas significantly improves the chances of approval.

Creditworthiness

Lenders review both personal and business credit history to assess how well the borrower has handled debt in the past. A strong credit score signals low risk, while poor credit may require explanation or improvement before applying.

What lenders look for in practice:

- Personal credit score (typically 650+ for traditional loans, higher for stronger terms)
- Business credit reports (if established)
- History of on-time payments
- Low credit utilization and manageable existing debt

Cash Flow & Repayment Ability

Cash flow is often the most important factor in lending decisions. Lenders want clear proof that the business generates, or will generate, enough income to cover both operating expenses and loan payments.

What lenders look for in practice for established businesses:

- At least 2–3 years of historical financial statements (profit & loss, balance sheet)
- Business and personal tax returns (typically 2–3 years)
- Year-to-date financials showing current performance

What lenders look for in practice for startups:

- Cash flow projections for 1–3 years, with:
 - The first year broken down monthly

- Realistic assumptions tied to actual business activity
- A clear demonstration that net income comfortably exceeds projected loan payments (debt service coverage)
- Clearly stated assumptions (pricing, customer growth, costs)
- Evidence supporting assumptions (market research, pilot results, comparable benchmarks)

Business Viability & Stability

Lenders evaluate whether the business model is realistic and sustainable. This is especially important for newer businesses or those seeking expansion. For startups, viability is judged less on past performance and more on how convincingly the entrepreneur can demonstrate market demand, a realistic go-to-market strategy, and achievable financial assumptions.

What lenders look for in practice:

- A clear explanation of the business model and revenue streams
- Evidence of market demand and competitive positioning
- Operating history (time in business, growth trends)
- A business plan or executive summary outlining strategy
- Realistic financial projections that align with past performance (if applicable)

Collateral & Personal Guarantees

Collateral provides lenders with a secondary source of repayment if the borrower defaults. This reduces risk and can improve approval chances.

What lenders look for in practice:

- Business assets (equipment, inventory, accounts receivable)
- Personal assets (real estate, savings, investments), if required
- A willingness to sign a personal guarantee
- A clear list of assets and their estimated values

Character & Management Capacity

Lenders assess the borrower's ability to lead and manage the business effectively. Even with strong financials, weak leadership can increase risk.

What lenders look for in practice:

- Resume(s) of owner(s) and key management
- Relevant industry experience or transferable skills

- Demonstrated ability to manage finances and operations
- Professionalism, organization, and responsiveness during the application process
- A clear understanding of how the loan will be used and repaid

Required Documentation Checklist

Prior to a loan being approved, lenders require documentation in order to verify the legitimacy, credibility, and financial health of a business. While established businesses rely heavily on historical documentation, startups must supplement limited financial history with forward-looking materials and well-supported assumptions. These documents allow for proper risk assessment for the lenders. Today's business environment has a plethora of financial pressure, making this process more critical for lenders.

What lenders look for in practice for established businesses:

- Profit and loss statements
- Balance sheets demonstrating assets and liabilities
- Business and personal tax returns
- YTD financial statements

What lenders look for in practice for startups:

- Detailed financial projections (1–3 years)
- Startup budgets and cost breakdowns
- Market research and industry benchmarks
- Signed contracts, letters of intent, or early customer traction
- Personal financial statements of the owner(s)

These documents allow lenders to properly assess the businesses' trends and stability. Given that firms are experiencing more financial strain, lenders use this information to authenticate business performance (*Federal Reserve Banks, 2025*).

Cash Flow and Debt Documentation

A primary focus for lenders is evaluating a business's capacity to create revenue and manage preexisting obligations.

- Debt schedule outlining current liabilities
- Bank statements
- Cashflow statements and projections

The primary driver for lending decisions is cash flow. Furthering that point, according to the 2025 Report on Employer Firms from the Federal Reserve Banks announced 51% of firms reported uneven cash flow and 56%

reported difficulty covering operating expenses reinforcing the lenders focus on the ability to repay (*Federal Reserve Banks, 2025*).

Business Plan or Executive Summary

Business plans are essential to provide context behind financials and explain how the loan will be used. For startups in particular, the business plan becomes the primary tool for risk evaluation. It must clearly connect the business model to revenue generation and show how assumptions translate into cash flow. A business plan should include:

- Clear business model and revenue streams
- Market positioning and competitive landscape
- Financial projections supported by realistic assumptions
- Defined use of funds

This document is used by lenders to evaluate the preparedness of the borrower. A well-structured plan allows for a better chance the lender will provide full funding (*Smith & Newberger, 2025*).

Legal and Organizational Documents

It is important that borrowers are properly structured and compliant with all laws and regulations.

- Business licenses and registrations

- Articles of incorporation or organization
- Operating agreements and ownership structure
- Contracts or leases

These documents allow lenders to be assured that businesses are legitimate. Therefore, reducing overall risk to the lender.

What Lenders Read in a Business Plan

Lenders focus primarily on sections that impact repayment ability and risk. The goal of the lenders who go over the required documents is to not critique creativity, but to determine a business's viability and current cash flow projections. Due to this, clear and concise information is required instead of complex data.

What lenders look for in practice:

- **Business Overview**
 - Lenders require a clear understanding of what a business does and how it operates.
 - Description of products and services
 - Target market and customers
 - How does the business drive revenue
 - This is a straightforward explanation that allows lenders to assess business models quickly.

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- **Revenue Model and Financial Performance**

- Providing an overview of how the business makes money is essential.
 - Primary revenue streams
 - Pricing strategy
 - Historical performance
- Credibility comes from a well-defined revenue model

- **Financial Projections**

- An important and necessary component of a business plan
 - 1-to-3-year financial reports or projections
 - Monthly breakdowns
 - Realistic assumptions based on business activity
 - Justification for assumptions using data, research, or comparable businesses
- Lenders place greater emphasis on realistic and data-supported projections (*Federal Reserve Banks, 2025*).

- **Use of Funds**

- A clear use of funds demonstrates intentional planning and reduces perceived risk.

- **Repayment Strategy**

- This section is critical to the business plan.

- How the business will generate cash to support payment back on the loan
 - Payment timeline
 - Contingency plans if underperformance occurs
- Having a clear and define strategy about repayment is becoming increasingly necessary as 41% of applicants receive a full financing request (*Federal Reserve Banks, 2025*).

Common Reasons Loans are Denied

The main reason loan applications are denied is because the borrower does not meet the lenders' expectations, not because the business idea does not have potential. Understanding the key reasons will help businesses position themselves as low-risk borrowers.

What lenders look for in in practice:

Poor Credit Without Explanation

- Credit history is a significant indicator of risk to lenders
- Low credit with no context
- Prior delinquencies or defaults
- Lack of improvement

Weak or Inconsistent Cash Flows

- The most important factor of repayment is cashflows
- Lack of income to cover expenses and payments
- Declining revenue streams

Current Debt

- High debt-to-income ratio
- Limited ability to handle more obligations

Incomplete Documents

- No preparation prevents approval
- Missing records
- Inconsistent information
- Delays in material submissions

Unrealistic Startup Projections

- Overly optimistic
- No supporting data
- Expectations do not fit norms

- No clear link between operations and financial outcomes

Misuse of Funds or Over-Leveraging

- Loan purpose must align with business needs
- Unclear use of fund
- Taking on too much debt to manage

How Duquesne University SBDC Supports Loan Readiness

Financial Preparation

When applying for a loan, financial literacy is key. The *SBA Business Guide* is a blueprint for planning, launching, and growing small businesses (*Business Guide*, n.d.). To increase the chances of entrepreneurs securing a loan, they should have a business plan, expense sheet, and financial projections for the next five years (*Fund Your Business*, n.d.). The *SBA Learning Platform* offers a variety of small business topics, including finance (*U.S. Small Business Administration*, 2024).

Cash Flow Analysis

Cash flow is the amount of money coming into (inflow) and going out of (outflow) a business. The U.S. Chamber of Commerce highlights step-by-step instructions for creating a cash flow statement (*Elliott*, 2026).

Loan Packaging

The SBA Packaging & Closing Document Checklist includes:

- Business valuations
- Appraisals on properties
- Life insurance document
- Escrow document
- SBA form 1919
- Title work

Ideally, the SBA loan packaging process takes approximately 60 days. This stage is very detail oriented.

(*Capital Bank, 2025*)

Lender Matching

In the case that banks deem a business too risky to lend money, SBA guaranteed loans could be an alternative option for funding (*Loans, n.d.*). Entrepreneurs can use the SBA *Lender Match* to be paired with potential lenders offering competitive rates and fees. Lender Match works in four steps: describe your needs, get matched in two days, talk to lenders, and then apply for a loan (*Lender Match Connects You to Lenders, n.d.*). The SBA recommends using the following checklist before Lender Matching: Business Plan, Amount and use of funds, Credit history, financial projections, Collateral, and Industry experience. Lender Match does not guarantee a loan and is not a loan application.

Coaching and Technical Assistance

The Duquesne University Small Business Development Center consultants have years of combined business experience and hold a variety of advanced business degrees (*Our Staff*, n.d.). Some staff specialties include Human Resource Leadership, International Business Development, Operations, Economic Development, Marketing, Healthcare Management, and Digital Media Production.

Client Readiness Self-Assessment

Funding Needs

- **Specific Use of Proceeds:** Do you have a line-item breakdown of how every dollar will be spent?
- **Return on Investment (ROI):** Can you articulate how this loan will grow your revenue?
- **Right-Sized Requests:** Have you calculated the exact amount needed?
- **Alternative Quotes:** (For equipment or renovations) Do you have at least two written estimates from vendors?

Repayment Ability

- **Debt Service Coverage Ratio (DSCR):** Is your DSCR at least 1.15 to 1.25?
- **Cash Flow Projections:** Do you have a month-by-month cash flow forecast for the next 12-24 months?
- **Break-Even Analysis:** Do you know exactly how much sales volume is required to cover the new loan payment?

- **Secondary Repayment Source:** If the business has a bad month, do you have personal income or other assets to cover the payment?
- **For startups:** Can you clearly explain and defend every assumption in your projections if questioned by a lender?

Financial Readiness

- **Tax Returns:** Are your last 3 years of personal and business federal tax returns signed and filed?
- **Interim Financials:** Do you have a **Profit & Loss (P&L)** and **Balance Sheet** dated within the last 90 days?
- **Accounts Receivable/Payable Aging:** Do you have a report showing who owes you money and who you owe (and for how long)?
- **Business Debt Schedule:** A list of current business loans, including original amounts, monthly payments, and remaining balances.

Credit Issues

- **Personal Credit Score:** Is your score at least **640-680**? (SBA loans often require 650+)
- **Credit Utilization:** Is your personal credit card usage below 30% of your limits?
- **Business Credit Report:** Have you checked your Dun & Bradstreet (DUNS) or Experience Business reports for errors?

- **No “Global” Delinquencies:** Are you currently on all federal debt (student loans, past SBA loans) and child support?
- **Explanation of Issues:** If you have a past bankruptcy or tax lien, do you have a written “letter of explanation” and proof that it has been resolved/discharged?

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