



# How to use business credit strategically to fuel expansion without overleveraging



# Table of contents



## **The Risks of Overleveraging ..... 3**

What Does Overleveraging Mean for Small Businesses?

What Are the Signs of Overleveraging?

- Rising debt ratios
- Declining margins
- Restricted cash flow

What Are the Most Common Credit Mistakes?

## **Types of Business Credit: And When to Use Each ..... 5**

What Is the Right Option for Your Small Business?

Business Line of Credit

Term Loans

Small Business Administration (SBA) Loans

Equipment Financing

Business Credit Cards

Decision Framework: Matching Credit Types to Use Cases

## **Strategic Credit Use: Questions to Ask Before Borrowing ..... 6**

Ask Questions First, and Apply for Credit Second

Will This Loan Help Me Increase Revenue or Reduce Costs Long Term?

Can I Comfortably Cover Monthly Payments Under Both Best- and Worst-Case Revenue Scenarios?

Is This the Best Type of Financing for This Purpose?

Have I Optimized Internal Cash Flow Before Seeking Outside Credit?

## **Financial Metrics to Monitor When Expanding with Credit..... 7**

Evaluating the Numbers That Matter for Business Growth

Debt Service Coverage Ratio (DSCR)

Debt-to-Income (DTI) and Debt-to-Equity (D/E) Ratios

Working Capital Cycle

Operating Cash Flow (OCF) vs. Cash Flow from Financing (CFF)

Using Cash Flow Projections to Guide Credit Decisions

## **Building Credit Before You Need It ..... 9**

Laying the Foundation for Strong Business Credit

Building a Borrowing Track Record with Your Bank

Keeping Business and Personal Credit Separate

Working with Your Bank to Review Credit Readiness

## **Real-World Scenarios: Strategic vs. Risky Credit Use..... 10**

Putting Strategic Credit Decisions into Context

Scenario 1: Strategic Use of Credit

Scenario 2: Risky Credit Use

Lessons Learned: Analysis of Outcomes

## **How Banks Can Support Sustainable Growth Through Credit..... 11**

Finding the Right Partner for Your Growth Journey

Credit Products Tailored to Business Stage and Industry

Relationship-Driven Lending and Financial Guidance

Treasury Management and Cash Flow Solutions

## **Find Your Balance: Credit as a Catalyst for Sustainable Success..... 12**

# The risks of overleveraging

## What Does Overleveraging Mean for Small Businesses?

Overleveraging occurs when a business takes on more debt than its current or projected cash flow and equity can comfortably support. While business credit is often a necessary part of growth — and may be preferred to other means of raising capital, such as issuing stock — borrowing too much may reduce financial flexibility and eat into revenue.<sup>1</sup>

For small businesses, this risk tends to be greater. With leaner margins and limited cash reserves, even a modest dip in sales or an unexpected expense may make debt repayment harder to manage. This often may force business owners to make tough choices, like delaying vendor payments, scaling back inventory and, ultimately, pausing expansion plans.

Consider a retail shop that takes out multiple loans to open a second location and upgrade its point-of-sale (POS) system. If customer traffic falls short of expectations or operating costs rise, the added debt may leave the business struggling to cover everyday expenses, not just loan repayments.

As overdue payments begin to build, an overleveraged company may enter a downward financial spiral: borrowing more just to stay afloat, while interest costs rise and operating expenses go unpaid.<sup>1</sup> Over time, this cycle may steadily weaken business health, highlighting the importance of aligning business credit with realistic repayment goals.

## What Are the Signs of Overleveraging?

At its core, overleveraging reflects a misalignment between borrowing and a company's financial capacity. By understanding the following signs of overleveraging — and how quickly they may emerge — operators may better identify potential challenges, taking proactive steps to protect business stability and prepare for sustainable growth.

### 1) Rising debt ratios

The term “debt ratio” refers to the proportion of a company's assets that are financed by debt, such as business loans or lines of credit. Generally speaking, a ratio greater than 1.0 (or 100%) signals that a significant portion of a business's assets are funded by debt, meaning the company has more liabilities than it does assets.<sup>2</sup>

If your debt ratios continue to rise after obtaining business credit, it may be a sign that your company cannot sustain its long-term debt commitments. To monitor financial health during business expansion, track whether your debt ratio is climbing faster than your revenue or asset growth.





## 2) Declining margins

While rising costs for goods, services and wages are common drivers of declining margins — and more than 70% of small businesses cite these rising costs as their top financial challenge — this trend only makes debt repayment more difficult.<sup>3</sup>

When business expenses outpace revenue, profit margins begin to shrink further. And as repayment obligations mount, margins tighten even more, leaving less room to absorb fluctuations in costs or sales. If your margins continue to decline month over month, it may be a sign of overleveraging.

## 3) Restricted cash flow

Having cash that's continually tied up in loan payments or business overhead costs may make it difficult to manage seasonal dips, delayed invoices and sudden expenses, such as unexpected equipment loss. Over time, this ongoing strain may significantly restrict [cash flow](#).

Restricted cash flow not only limits financial flexibility but may also lead to additional borrowing, which may potentially increase the risk of overleveraging. If cash flow continues to tighten month over month, it may be time to assess how you're using business credit to power growth.

## What Are the Most Common Credit Mistakes?

Recognizing the signs of overleveraging is only part of the equation. Many small businesses encounter challenges not because they borrowed, but because of how they borrowed. By understanding these common credit mistakes, you may better position your company to use credit strategically:

- **Stacking credit products.** Taking on multiple loans or lines of credit without a clear repayment plan may quickly spike expenses and raise debt ratios.

- **Relying too heavily on short-term debt.**

Using short-term financing for long-term investments may lead to frequent refinancing and higher overall costs.

- **Not aligning financing with returns on investment (ROI).** Borrowing without considering whether it will generate sufficient returns may strain cash flow.

"Business owners always ask, 'Can I grow?' And the answer can always be, 'Yes.' However, it really depends on not just your successes to date, but if you have the people, skills and resources lined up to keep that momentum going," [explains Shana Peterson-Sheptak](#), head of Business Banking at PNC Bank.

"A small business can and will often improvise. Yet, the bigger you grow, those gaps can get bigger, too, and harder to bridge. So, when considering growth, it's important to take a hard look at where your shortcomings lie — and have a concrete plan to address them."



# Types of business credit

## And when to use each

### What Is the Right Option for Your Small Business?

Business credit encompasses [a range of financing options](#) designed to help companies manage cash flow, maintain margins and maximize expansion. When used strategically, financing may be more than a liability — it may be a tool for advancing long-term goals for your small business.

The only problem? Matching the right type of credit to the right business purpose.

### Business Line of Credit

A [line of credit](#) offers flexible, revolving access to short-term working capital. It may help cover seasonal fluctuations, manage unexpected expenses, or bridge gaps between payables and receivables. Businesses may access funds as needed within the draw period, paying interest payments only on the amount borrowed, not the entire credit limit.

### Term Loans

[Term loans](#) provide a lump sum of capital for large, one-time investments with predictable returns, such as facility upgrades. Borrowers repay the loan over a set schedule, often making this option better suited for long-term planning and clearly defined growth initiatives.

### Small Business Administration (SBA) Loans

Small Business Administration (SBA) loans offer lower rates and longer repayment terms than many alternative financing options, which tends to make them attractive in times of economic uncertainty. For instance, the U.S. Small Business Administration provided \$380 billion in loans to small businesses under the COVID-19 Economic Injury Disaster Loan (EIDL) program.<sup>4</sup>

Beyond turbulent markets, [SBA loans](#) may also be a good fit for young or growing businesses seeking capital for expansion or refinancing.

### Equipment Financing

Equipment financing allows businesses to [purchase or lease assets](#) like machinery or vehicles while spreading payments over time. By matching the loan term to the equipment's expected lifespan, companies may align costs with the asset's revenue-generating potential and avoid cash flow disruptions.

### Business Credit Cards

Unlike the above credit types, [business credit cards](#) are best for smaller, recurring expenses rather than core capital. According to the National Small Business Association, 34% of small businesses use credit cards, making them the most common financing method for meeting immediate or day-to-day capital needs.<sup>5</sup>

### Decision Framework: Matching Credit Types to Use Cases

Business credit should serve a [specific growth purpose](#): equipment financing for assets that boost productivity, lines of credit for inventory purchases that capture early-payment discounts or term loans for renovations that expand your customer capacity. Each dollar borrowed should have a clear path to generating more than a dollar in return.

Consider how a restaurant might utilize a \$50,000 equipment loan to install a second pizza oven, thereby doubling its Friday night capacity and generating an additional \$8,000 monthly. Within a year, the debt may pay for itself while increasing revenue for years to come.

SBA loans and business credit cards also have their place in a strategic expansion plan.

A startup manufacturer might obtain an SBA loan to purchase specialized equipment, positioning the company to increase production and compete for larger contracts. On the other hand, a small marketing company might use a credit card to cover ongoing software subscriptions or travel expenses, reserving core capital for larger growth initiatives.

Understanding credit options is just the start. The next step is evaluating how credit use could impact your long-term success.

# Strategic credit use

## Questions to ask before borrowing

### Ask Questions First, and Apply for Credit Second

“Expansion is tricky,” explains Head of Business Banking Shana Peterson-Sheptak. “The same enthusiasm and can-do attitude that fuels an entrepreneur can often lead to underestimating risks when the stakes get higher. So, we counsel any growing business to look at plans objectively, not through rose-colored glasses.”

That means seeking out trusted expertise — from your accountant, your attorney and other advisers — and asking the tough questions needed to [evaluate growth plans](#) before moving ahead.

### Will This Loan Help Me Increase Revenue or Reduce Costs Long Term?

Consider whether the funds will directly generate new revenue or reduce ongoing expenses. Weigh the potential return against the borrowing cost to help feel confident that the loan may support sustainable growth rather than serve as a temporary fix. A clear link between the loan and measurable outcomes often helps inform decision-making.

### Can I Comfortably Cover Monthly Payments Under Both Best- and Worst-Case Revenue Scenarios?

Growth plans don't always unfold as expected. A recession or market shift may shrink customer demand, disrupt cash flow and leave small businesses scrambling to cover essential costs. Forecasting repayment abilities under both optimistic and challenging scenarios helps determine whether the loan remains manageable, even during unexpected downturns.

### Is This the Best Type of Financing for This Purpose?

Each credit option is designed to serve a distinct purpose. Because of this, selecting the right financing type for your needs may help reduce borrowing costs and repayment stress. For instance, a line of credit offers flexibility in when and how much you borrow, with interest applied only to the funds borrowed. In comparison, a term loan locks in the borrowed amount and payment timeline, even if the full amount isn't spent right away.

Evaluate whether the structure, term and flexibility of the desired credit type align with your specific goals to ensure that the financing supports, not stalls, your business growth strategy.

### Have I Optimized Internal Cash Flow Before Seeking Outside Credit?

Beyond monitoring for overleveraging, keeping an eye on cash flow may also guide financing decisions. By improving internal cash flow before seeking outside credit, you may reduce the amount you need to borrow — or delay the need for financing altogether. It's often helpful to review payment cycles and inventory practices to confirm cash is flowing in and out efficiently.





# Financial metrics to monitor when expanding with credit

## Evaluating the Numbers That Matter for Business Growth

Though questions may be a valuable starting point, [financial metrics](#) provide tangible evidence to guide borrowing decisions. Tracking these indicators helps avoid overextending your resources while expanding with credit, offering a clearer picture of both current capacity and future potential.

Monitoring the following financial metrics may help reveal trends, overleveraging risks and opportunities as your small business grows.

### Debt Service Coverage Ratio (DSCR)

The debt service coverage ratio (DSCR) measures your company's operating income against its debt obligations, including principal and interest. Tracking DSCR helps determine whether your borrowing levels are sustainable or approaching overleveraging.

For instance, a DSCR of 1.0 means your business generates exactly enough income to cover debt payments. A DSCR below 1.0 indicates negative cash flow, suggesting your company may require external funds, such as a term loan, to meet operating and repayment obligations.<sup>6</sup>

### Debt-to-Income (DTI) and Debt-to-Equity (D/E) Ratios

The debt-to-income (DTI) ratio compares monthly debt payments to gross monthly income, showing how much of your company's revenue is allocated to debt repayment. Business lenders often consider ratios under 36% as healthy, though thresholds tend to vary by institution and industry.<sup>7</sup>

Another popular financial metric, the debt-to-equity (DTE) ratio, compares total liabilities to shareholder equity, demonstrating how much your company relies on debt versus its own capital. Ratios below 1.0 are generally considered more stable, while higher ratios may suggest elevated financial risk.<sup>8</sup>

### Working Capital Cycle

[Working capital](#) measures your company's short-term liquidity — more specifically, its ability to cover immediate obligations like payroll, accounts payable and inventory. It's calculated by subtracting your current liabilities from current assets.

Your business's working capital cycle tracks how long it takes to convert current liabilities and assets into cash. It measures the time between paying for materials or services, selling to customers, and collecting payment. A shorter cycle tends to signal efficient cash flow, while a longer cycle may indicate funds are tied up in operations and could benefit from external financing.



### Operating Cash Flow (OCF) vs. Cash Flow from Financing (CFF)

Speaking of efficient cash flow, operating cash flow (OCF) measures cash generated by core business operations, while cash flow from financing (CFF) reflects cash raised and repaid through loans, investments or equity.

Comparing these two metrics helps reveal whether your business funds itself primarily through revenue or borrowed capital — an important perspective when assessing potential overleveraging.

### Using Cash Flow Projections to Guide Credit Decisions

Some small business owners are kept awake at night worrying that they won't have enough cash to cover upcoming expenses. Cash flow projections may help ease that uncertainty by identifying when business credit might be necessary and when borrowing levels could create added risk.

Many of today's banking platforms offer forecasting tools to anticipate cash inflows and outflows 30, 60 or 90 days ahead, highlighting potential shortfalls before they

occur. Consider [Cash Flow Insight®](#), a suite of cash flow management tools available in PNC Online Banking, for example.

Cash Flow Insight enables you to quickly view total incoming and outgoing cash for the month, plan scenarios for this year and the next, and take proactive steps to stay on track, such as sending invoice reminders or scheduling transfers.

This visibility helps anticipate challenges and explore financing options on more favorable terms rather than reacting under pressure (or unexpectedly overleveraging).





# Building credit before you need it

## Laying the Foundation for Strong Business Credit

Monitoring financial metrics helps manage debt wisely, but metrics alone can't secure financing when it matters most. Establishing and maintaining strong business credit is what builds credibility with lenders, helping to ensure you have access to capital when opportunities or challenges arise.

This preparation is increasingly important in today's lending environment. More than one-third of small businesses (37%) report being unable to obtain adequate financing — the highest levels since 2008.<sup>5</sup> Building credit before you need it may help your business avoid being part of that statistic.

## Building a Borrowing Track Record with Your Bank

Established relationships with business bankers who understand your industry and growth plans may open doors to flexible credit tools that evolve with your needs. Your bank may also alert you to refinancing opportunities when rates drop or your credit profile strengthens.

Tactics that may help build a borrowing track record with your bank include:

- Starting with smaller credit products, such as a business credit card, to demonstrate reliable repayment habits
- Routinely sharing updated financial statements to reflect current borrowing capacity
- Scheduling periodic consultations to review your credit profile and cash flow

## Keeping Business and Personal Credit Separate

Maintaining separate credit profiles helps protect personal assets while building your company's independent financial reputation. Clear separation also simplifies bookkeeping and makes it easier for banks to assess the true strengths (and weaknesses) of your business's health.

## Working with Your Bank to Review Credit Readiness

Regularly reviewing your credit position with a trusted banking partner provides clarity into borrowing capacity and potential overleveraging risks. [PNC business bankers](#) work with you to help identify areas for improvement, such as your current DSCR ratio or operating cash flow. We may also be able to help align financing options with your long-term growth strategy, enabling you to scale with confidence.



# Real-world scenarios

## Strategic vs. risky credit use

### Putting Strategic Credit Decisions into Context

Sometimes the best way to understand business credit — and its potential repercussions — is to see it in action. The following hypothetical scenarios illustrate how different borrowing decisions may lead to vastly different outcomes depending on timing, credit type and financial readiness.

#### Scenario 1: Strategic Use of Credit

A retail business uses a line of credit to purchase extra inventory ahead of its busy season. After a few high-sales months, the company repays the balance in full, maintaining cash flow while avoiding long-term debt. This credit approach may help the business [expand without sacrificing profitability](#).

#### Scenario 2: Risky Credit Use

A [healthcare provider](#) takes on multiple loans to expand quickly but lacks a clear repayment plan. Rising debt payments begin to strain daily operations, leaving less cash for payroll and vendor obligations. Without a strategy, the practice borrows more just to keep up and overleverages.

### Lessons Learned: Analysis of Outcomes

Both of these scenarios start with the same goal: fueling growth and boosting revenue. The primary difference? Preparation and timing. The strategic approach prioritizes cash flow efficiency and provides flexibility to manage seasonal demand, while the risky approach locks the business into debt obligations it can't realistically sustain.

As Shana Peterson-Sheptak, head of Business Banking, puts it: “Businesses often underestimate the amount of money and time needed to increase their revenue stream. Growth means hiring and training people, buying in bulk, or bringing new equipment into the production process. Those steps take more time than is usually expected to really pay off.”



# How banks can support sustainable growth through credit

## Finding the Right Partner for Your Growth Journey

Choosing the right bank is about more than securing financing — it's about building a relationship that evolves alongside your business. A trusted banking partner may help identify the right credit solutions, provide insight into financial metrics and offer guidance to support long-term growth.

## Credit Products Tailored to Business Stage and Industry

As your company grows, its financing needs scale, too. PNC Small Business Banking offers a range of [financing and lending options](#) designed to match your stage of growth and the unique demands of your business:

- [Small business loans](#) provide a set amount of credit to purchase assets or meet general financing requirements.
- [Small business lines of credit](#) offer flexibility to prepare for the changing needs of your business.
- [SBA loan programs](#) feature structures and terms that may be more attainable than conventional lending options.
- [Commercial real estate loans](#) may help you purchase or refinance your owner-occupied commercial property.
- [Small business vehicle loans](#) may help support replacing or expanding your business vehicle fleet.

- [Business credit cards](#) provide a simple means to cover recurring expenses, with perks like cash back and travel rewards.

To help simplify borrowing across sectors, PNC also supports a wide range of industries, including:

- [Healthcare](#)
- [Retail](#)
- [Manufacturers](#)
- [Wholesalers](#)
- [Food, Beverage and Agribusiness](#)
- [Professional Services](#)
- [Real Estate Agents](#)
- [Women in Business](#)
- [Veteran Business Owners](#)

## Relationship-Driven Lending and Financial Guidance

Beyond offering diverse credit products, a strong banking relationship also provides access to realistic planning resources and financial guidance grounded in key performance indicators. Your PNC business banker may help you interpret these metrics and apply them to your unique situation, using tools like cash flow forecasting, debt management strategies and tailored account solutions to support long-term growth.

"We love to see our clients succeed," explains Shana Peterson, head of Business Banking. "At the same time, we as bankers have to say, 'Seek financing only when you're ready to answer all the questions about your business plan.' After all, a bank is really all about managing risk.

"The more tethered your dreams are to reality, the more difficult questions you can answer with confidence. And the better your odds to secure the capital you need to finance growth."

## Treasury Management and Cash Flow Solutions

[Treasury management tools](#) may help avoid overreliance on debt during expansion by improving cash flow visibility and efficiency. Once reserved for large corporations, these tools are now increasingly accessible for growing small businesses. Look for a banking partner that offers:

- [Cash Flow Insight](#) to help forecast and anticipate potential challenges in cash flow
- Automated sweep accounts to help maximize interest earnings on idle cash
- ACH origination to help streamline vendor payments and payroll
- Remote deposit capture to keep cash flowing, even on the go



# Find your balance

## Credit as a catalyst for sustainable success

When used wisely, business credit may be a powerful tool for growth. It may spark innovation, secure new markets and strengthen your competitive edge. But without a clear plan, it may also create lasting strain on your business's health.

**Balance is the key:** learning how to use credit to fuel expansion while avoiding the pitfalls of overleveraging. Finding that balance often comes from understanding the financial metrics that signal when it's time to act — and when to pause.

That's where PNC Small Business Banking comes in. We provide the tools and industry expertise to help you scale confidently. [Explore how PNC might support your next chapter](#) with tailored solutions that help turn credit into a catalyst for growth.



<sup>1</sup> Overleveraged: Meaning & Adverse Outcomes, Investopedia, May 29, 2021, <https://www.investopedia.com/terms/o/overleveraged.asp>

<sup>2</sup> What Is the Debt Ratio?, Investopedia, May 7, 2025, <https://www.investopedia.com/terms/d/debtratio.asp>

<sup>3</sup> 2025 Firms in Focus: Chartbook on Firms by Credit Risk, Fed Small Business, May 12, 2025, [https://www.fedsmallbusiness.org/-/media/project/clevelandfedtenant/fsbsite/reports/2025/2025-firms-in-focus-chartbooks/sbcs\\_chartbook2025\\_creditrisk.pdf](https://www.fedsmallbusiness.org/-/media/project/clevelandfedtenant/fsbsite/reports/2025/2025-firms-in-focus-chartbooks/sbcs_chartbook2025_creditrisk.pdf)

<sup>4</sup> From Short-Term Relief to Long-Term Hardship: Some Small Businesses Struggle with Debt Burdens from COVID-19 Economic Injury Disaster Loans, Fed Small Business, Aug. 20, 2024, <https://www.fedsmallbusiness.org/analysis/2024/some-small-businesses-struggle-with-debt-burdens-from-covid-19-economic-injury-disaster-loans>

<sup>5</sup> 2023 Economic Report, National Small Business Association, Mar. 2023, [https://www.nsbadvocate.org/\\_files/ugd/601769\\_8df54000a0f644e9afc0425bcdfa649f.pdf](https://www.nsbadvocate.org/_files/ugd/601769_8df54000a0f644e9afc0425bcdfa649f.pdf)

<sup>6</sup> Debt-Service Coverage Ratio (DSCR): How to Use and Calculate It, Investopedia, Jun. 17, 2025, <https://www.investopedia.com/terms/d/dscr.asp>

<sup>7</sup> Debt-to-Income (DTI) Ratio: What's Good and How to Calculate It, Investopedia, Apr. 9, 2025, <https://www.investopedia.com/terms/d/dti.asp>

<sup>8</sup> Debt-to-Equity (D/E) Ratio Formula and How to Interpret It, Investopedia, Jun. 9, 2025, <https://www.investopedia.com/terms/d/debtequityratio.asp>

These articles are for general information purposes only and are not intended to provide legal, tax, accounting or financial advice. PNC urges its customers to do independent research and to consult with financial and legal professionals before making any financial decisions. This site may provide reference to internet sites as a convenience to our readers. While PNC endeavors to provide resources that are reputable and safe, we cannot be held responsible for the information, products or services obtained on such sites and will not be liable for any damages arising from your access to such sites. The content, accuracy, opinions expressed and links provided by these resources are not investigated, verified, monitored or endorsed by PNC.

The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs.

Brilliantly Boring since 1865 is a service mark of The PNC Financial Services Group, Inc.

Cash Flow Insight is a registered mark of The PNC Financial Services Group, Inc. U.S. Patent Nos. 10,402,910, 9,965,808, 10,552,917 and 11,074,660, and other patent pending.

PNC Bank is a registered mark of The PNC Financial Services Group, Inc.

©2025 The PNC Financial Services Group, Inc. All rights reserved. PNC Bank, National Association. **Member FDIC.**

BB PDF 1025-0138-2769901