

SBA Program Strain and the Next Era of Lower Market Deals

SBA 7(a) loan strain is reshaping lower-market M&A, forcing buyers, sellers, and lenders to adapt deal structures and financing in a tighter credit era.

FORT WORTH, TX, UNITED STATES, October 16, 2025 /EINPresswire.com/ -- When America's small

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Dr. Brandon Chicotsky

business owners plan their exit, the question is rarely whether there will be a buyer — it is whether that buyer can secure financing. For decades, the U.S. Small Business Administration (SBA) has been the backbone of lower-market acquisitions, providing partial guarantees that make it feasible for banks to lend to new owners. Yet the program itself is under pressure.

In fiscal year 2024, the SBA's flagship 7(a) loan program operated at a cash-flow deficit for the first time in years, a

sign of stress driven by rising defaults and the high cost of funds in a sustained higher-rate environment (Government Accountability Office [GAO], 2024). Lenders, regulators, and borrowers are now facing questions about program solvency and future rule changes. History suggests that when the SBA encounters turbulence, new policy filters follow — altering how Main Street deals get done.

A Program Built to Expand Capital — and Constantly Reshaped

The SBA was founded in 1953 as part of a postwar push to preserve competitive enterprise and expand access to credit (Small Business Act, Pub. L. 83-163, 1953). The 7(a) program, launched in 1958, became the flagship: private lenders make loans, and the federal government guarantees a portion of the risk.

Congress has revised the program repeatedly:

1980s–1990s: Guarantee levels and fees were recalibrated after default spikes during recessions; lenders were required to share more risk to protect taxpayers (U.S. SBA, 2023).

2008–2010: The Small Business Jobs Act of 2010 temporarily raised guarantee percentages to

90% and waived many borrower fees to restart lending after the financial crisis (Congressional Research Service [CRS], 2024).

2020–2022: The CARES Act and Economic Aid Act offered unprecedented fee relief and payment subsidies to keep credit flowing during the pandemic (CRS, 2024).

Each wave of crisis and reform reshaped incentives. After 2010, more buyers could use seller financing to supplement equity injections; after 2020, temporary subsidies expanded buyer access but masked true cost-of-capital risk. With the end of extraordinary support and a high-rate environment, repayment performance has tightened again.

“Policy shifts are never just paperwork — they decide who can actually fund a deal,” said [Dr. Brandon Chicotsky](#), Managing Principal of [God Bless Retirement](#). “Owners and buyers who aren’t ready for those changes risk watching their transaction collapse when lenders retrench.”

Why FY2024’s Stress Signals Matter

The SBA’s 7(a) portfolio showed rising delinquency and charge-off rates in FY2024 as floating rates pushed monthly payments higher (GAO, 2024). The program’s fee income, long sufficient to offset losses, fell short. At the same time, banking regulators are evaluating Basel III “endgame” capital requirements that could make guaranteed loans more costly to hold (American Bankers Association [ABA], 2024).

If history repeats, the SBA could tighten underwriting guidance or adjust guarantee levels. Any move that increases required equity injections or restricts seller notes would directly affect lower-market M&A, where buyers typically rely on 7(a) leverage for deals under \$5 million and often need flexibility in structuring.

Friction Points in a Tighter Cycle

Even under stable policy, lower-market deals already fail at alarming rates. The International Business Brokers Association (IBBA) reports that about 70% of listed small businesses never sell (IBBA, 2023). Among the top reasons: deals collapse in underwriting.



U.S. Senator Ted Cruz & Dr. Brandon Chicotsky, Managing Principal of God Bless Retirement

Common friction points include:

Equity injection clarity: Buyers assume seller financing can replace cash, but SBA standby and equity rules limit this.

Debt service coverage: Rising rates push post-close cash flow below required coverage ratios.

Collateral and personal guarantees: Banks may require broader liens or full guarantees just as buyers hope to limit exposure.

Underwriting drag: Policy changes or additional SBA authorization steps can stretch timelines beyond a seller's patience.

In a higher-rate, higher-default environment, lenders will likely enforce standards more strictly.

"We prepare deals that deserve to close," Chicotsky said. "That means modeling debt service against rate stress, structuring equity correctly, and packaging files that withstand scrutiny from the first lender review to SBA authorization."

God Bless Retirement's Model in a Post-Relief Era

God Bless Retirement (GBR) — a Fort Worth-based, family-led, faith-driven business brokerage — has built its process around these policy realities. The firm manages both sell-side and buy-side engagements but is known for its disciplined, bank-aligned preparation:

Policy-integrated structuring: Every deal is modeled to meet current SBA SOP rules on equity, standby, and personal guarantees.

Bank-ready documentation: Financial normalization, customer concentration analysis, and add-backs are vetted to lender standards.

Community banking partnerships: GBR works with regional banks that remain active in SBA lending, aligning early on underwriting expectations.

Mission-driven stewardship: The firm treats successful transitions as civic work — helping retiring owners preserve wealth and local jobs while guiding buyers through regulatory complexity.

This approach protects sellers from failed exits and helps buyers navigate a lending landscape that can tighten without warning.

The Stakes for Main Street

The demographic wave is large: 2.3 million baby boomer-owned employer firms employing more than 25 million Americans will face succession in the coming decade (Project Equity, 2023). If financing falters, retirement wealth erodes, employees lose stability, and communities lose anchors of tax base and civic engagement.

International comparisons show how distinct the U.S. model is. Canada's Business Development Bank (BDC) and the UK's Enterprise Finance Guarantee offer centralized support but rely heavily on government direct lending and stricter collateral. The U.S. approach — guarantee-backed, relationship-driven, and bank-executed — works, but only for buyers and sellers who understand the rules (OECD, 2024).

As program finances tighten, deal preparation will be decisive. Firms that can package bankable transactions and adapt to changing SOPs will preserve Main Street wealth; those that cannot will see more failed closings.

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