

SBA Loan Performance in 2025: What the Data Says—and Why it Matters for Buyers and Investors

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Recent SBA loan performance data offers an important reality check for buyers, lenders, and investors operating in the lower middle market. A 2025 analysis highlighted by [Monitor Daily](#) examines which industries are experiencing the lowest default rates across SBA-backed loans. These findings carry meaningful implications for search funders, independent sponsors, family offices, and anyone allocating capital to small businesses.

This edition of Search Fund Operate takes a deeper look at what the data actually shows, why certain industries consistently outperform others from a credit-risk perspective, and how that information should inform acquisition strategy, diligence priorities, financing decisions, and legal structuring. For buyers using SBA leverage, this is forward-looking signal about operational durability and transition risk.

What the SBA Loan Performance Data Reveals

The SBA loan performance report identifies several industries with notably lower default rates in 2025. These sectors tend to share common structural characteristics:

- Predictable, recurring demand
- Essential or non-discretionary services
- Lower customer concentration risk
- Operational simplicity relative to revenue stability
- Limited exposure to volatile input costs

Industries such as healthcare services, professional services, recurring service-based businesses, and essential retail continue to perform well compared to more cyclical or capital-intensive sectors. These businesses benefit from steady cash flow, contractual or repeat customer relationships, and pricing models that adjust more easily to inflation or labor pressure.

By contrast, businesses tied to discretionary consumer spending, commodity-sensitive pricing, or seasonal revenue cycles show higher stress levels. Margin compression, labor shortages, and supply-chain disruptions continue to test these models—especially when layered with SBA leverage. This is unlikely to come as a surprise for anyone investing in this space.

Why Default Rates Matter for Buyers (not Just Lenders)

While SBA default data is often viewed through a lender's lens, buyers should treat it as a proxy for operational resilience. Lower default rates typically correlate with:

- Stronger and more consistent debt service coverage
- More durable margins across economic cycles
- Better pricing power with customers
- Reduced reliance on a single owner, customer, or vendor

For search fund entrepreneurs and first-time buyers, these factors materially affect day-to-day operating stress (and should translate to lower risk). The first 12–24 months post-close are often the most fragile period of ownership. A business that historically services SBA debt is more likely to support a new owner during the transition stage when they are still trying to absorb institutional knowledge from exiting leadership while simultaneously trying to establish their own credibility.

From a legal perspective, default risk also ties directly into representations, indemnities, earn-outs, and seller financing terms. Businesses operating in higher-risk industries often require more robust contractual protections to balance uncertainty.

Industry Selection Is a Risk Management Tool

The data reinforces a point often overlooked in acquisition discussions: industry selection itself is a form of risk management.

Buyers often focus on valuation multiples, seller notes, or headline EBITDA figures, but industry dynamics may matter more than price precision. A slightly more expensive business in a low-default, stable industry can be materially safer than a discounted deal in a volatile sector.

For independent sponsors and family offices deploying patient capital, lower-default industries align well with:

- Moderate leverage strategies
- Longer hold periods
- Incremental operational improvements
- Leadership transition planning

These industries tend to support governance frameworks, professionalization, and repeatable growth rather than aggressive financial engineering.

SBA Financing Magnifies Both Strengths and Weaknesses

SBA-backed transactions impose discipline both structurally and procedurally. While SBA loans remain attractive due to leverage and pricing, they magnify diligence failures when buyers underestimate operational weaknesses.

Key diligence considerations include:

- Cashflow Quality: Are earnings repeatable, or dependent on one-time contracts, owner relationships, or favorable timing?
- Owner Reliance: Does the business function independently, or is the seller the operational bottleneck?
- Customer Concentration: Is revenue diversified or dependent on a small number of counterparties?
- Operational Controls: Are accounting systems, reporting cadence, and internal controls sufficient to support debt compliance?
- Legal Infrastructure: Are contracts assignable, enforceable, and properly documented for a post-close environment?

Industries with lower default rates tend to score better across these dimensions—not by coincidence, but because their

business models demand consistency and discipline.

Legal Structuring Considerations in Lower-Default Industries

From a legal standpoint, industry risk should influence deal structure. In more stable industries, buyers may have greater flexibility to:

- Negotiate cleaner transitions with shorter seller involvement
- Rely less on contingent consideration or earn-outs
- Use standardized employment and non-compete arrangements
- Implement governance documents that support scalability

In higher-risk industries, buyers often need enhanced protections, including longer transition services agreements, expanded indemnities, escrow holdbacks, and tighter covenants tied to customer retention or financial performance.

Understanding industry default trends helps buyers align legal risk allocation with operational reality.

Implications for Investors and Family Offices

For family offices allocating capital to search funds, independent sponsors, or direct acquisitions, SBA performance data offers an additional underwriting lens. It helps evaluate not just sponsor capability, but business durability.

Investors increasingly expect sponsors to articulate why a target industry supports sustainable leverage, predictable operations, and long-term value creation. Default-rate data provides objective context for investment committee discussions and portfolio construction decisions.

It also supports diversification across industries with varying risk profiles, rather than concentration in sectors vulnerable to economic or regulatory shifts.

Final Thoughts

The 2025 SBA loan performance analysis reinforces a simple but critical point: not all small businesses carry the same risk, even at similar price points. Industries with lower default rates tend to reward discipline, operational focus, and patience—traits that align closely with successful ETA and private capital strategies.

For buyers, this is a reminder to look beyond the deal structure and focus on the durability of the underlying business. For investors, it reinforces the importance of industry selection as a cornerstone of long-term capital preservation and growth.