

THE BARATELLI HOMETOWN CREDIT INDEX · EDITION NO. 1 · OCTOBER 2026

Hometown credit is open. It is selective, and it costs more.

The first reading of the Baratelli Hometown Credit Index is 37.5 on a 100-point scale where 50 is neutral. Banks are lending again and cutting their spreads. The SBA is making fewer, larger loans under stricter rules. And the price of money turned up in September. Borrowers who arrive prepared are getting financed.



*504 average is for the first nine months of FY2026 (through June 30); the full-year 504 loan count posts with SBA's year-end data in November. Readings are the latest published as of October 22, 2026. Bank standards = net % of banks tightening on small-firm loans (Federal Reserve, July 2026). The full data set, with a source on every figure and the scoring formula, is in the companion workbook.

THE TWO SBA LOAN PROGRAMS IN THIS REPORT

SBA 7(a): the all-purpose small-business loan

A bank or other approved lender makes the loan and the SBA guarantees most of it (up to 85% on loans of \$150,000 or less, 75% above), so lenders say yes to businesses they could not otherwise finance. Up to \$5 million. Used to buy a business, fund working capital, buy equipment or inventory, refinance debt or buy real estate. Terms run up to 10 years, or 25 years with real estate.

SBA 504: long-term, fixed-rate financing for real estate and big equipment

Built for buying or building a building, or buying heavy machinery. A bank lends about 50%, a nonprofit Certified Development Company lends about 40% through an SBA-backed debenture, and the owner puts in as little as 10%. The SBA portion goes up to \$5 million (\$5.5 million for manufacturers and energy projects), at a fixed rate for 10, 20 or 25 years.

1 · THE READING

Hometown businesses do not borrow from the stock market. They borrow from community banks, SBA lenders, credit unions and the people who sell them businesses. The Index reads all of those channels at once, using six gauges that are already published by the Federal Reserve, the SBA, NFIB, Equifax and BizBuySell. Each gauge earns a score from -2 to +2 under a fixed rule, so every quarter is measured the same way.

Gauge	Latest reading	Signal for borrowers	Score
Bank lending standards	+1.8	Neutral	0
Loan demand	+3.6	Neutral	0
Cost of credit	+8	Headwind	-1
SBA access	-28%	Strong headwind	-2
Credit quality	-13bp	Tailwind	+1
Business-sale market	-7%	Headwind	-1
Baratelli Hometown Credit Index		Selective	37.5

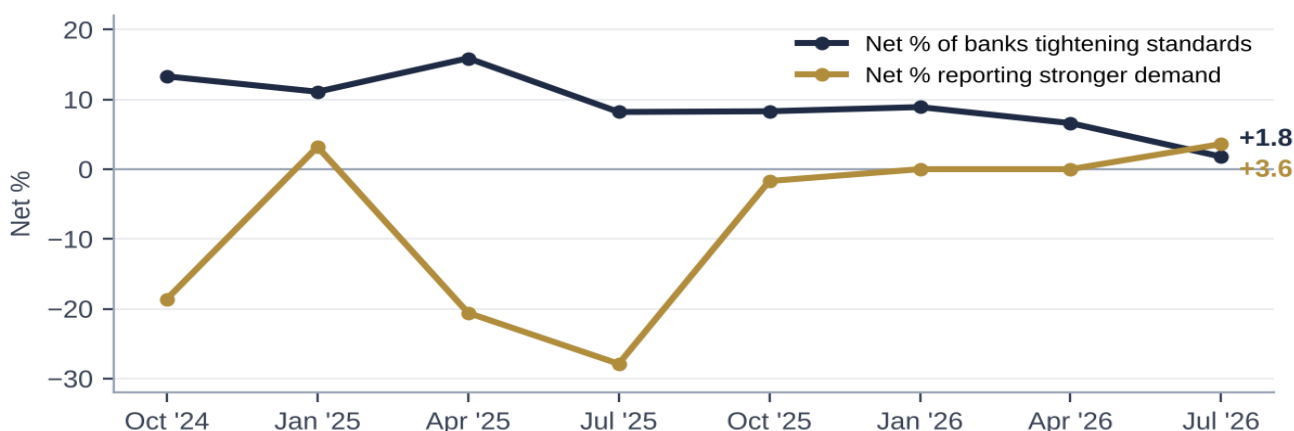
Readings: bank standards and demand, net % of banks (Fed SLOOS, July 2026); cost, net % of owners paying a higher rate (NFIB, September 2026); SBA access, change in 7(a) loan count FY2026 vs FY2025; credit quality, change in the small-business default index over twelve months (Equifax, August 2026); business-sale market, change in closed sales Q3 2026 vs Q3 2025 (BizBuySell). Index = $50 + 50 \times (\text{sum of scores} \div 12)$.

The story in one paragraph. The banks are fine: standards for small firms are close to neutral for the first time in years, demand has turned up, spreads are coming down and loan quality is improving. The pressure is coming from two places. Washington tightened the SBA's rules and shut the program down for six weeks, so the SBA made 28% fewer loans. And the Federal Reserve raised rates in September, so more owners are paying more. The result is a market that says yes to the prepared borrower and no to the rest.

The Institute's read: 37.5 is a selective market, not a closed one. Banks have money and want good loans. The borrowers who win in this market have clean historical financials, real debt-service coverage and their documents ready before the first meeting.

2 · BANKS ARE OPEN FOR BUSINESS

The Federal Reserve asks senior loan officers every quarter whether they are tightening or easing standards for small firms. In October 2024, a net 13% were tightening. In July, the reading was +1.8, effectively neutral, and the Fed describes standards for small-firm loans as "easier than the midpoints of their historical ranges." Demand turned positive at the same time.



Source: Federal Reserve Senior Loan Officer Opinion Survey, small firms (annual sales under \$50 million), via FRED series DRTSCIS and DRSDCIS. The October survey is due November 2, 2026.

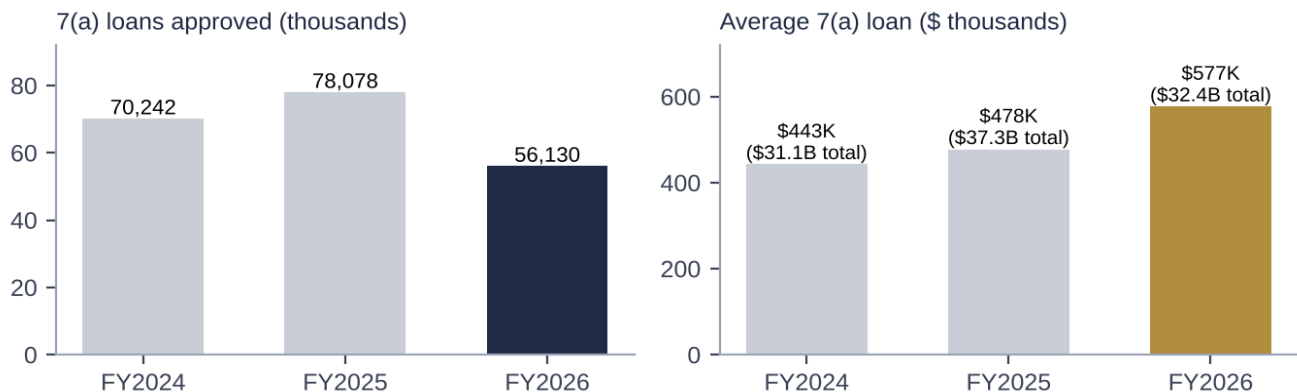
July 2026 loan terms, small firms	Net % tightening
Loan spreads over cost of funds	-14.5
Cost of credit lines	-7.3
Maximum size of credit lines	-1.9
Premiums on riskier loans	0.0
Collateral requirements	0.0

A negative number means more banks are easing than tightening. Source: Federal Reserve, SLOOS July 2026, Table 1.

Community and regional banks see the same thing. In the Kansas City Fed's Q2 2026 survey of 146 lenders, total new loan balances were up 8.5% from a year earlier, led by new credit lines (+20.9%). Floor spreads on credit lines fell 96 basis points from a year earlier, and median variable term-loan rates were about 7.0% in cities and 6.7% in rural markets. The caution sits with the borrower: 69% of lenders named the borrower's financials as the top reason for a denial, and 69% expect inflation to weigh on demand, up from 46% a year ago.

3 · THE SBA YEAR: FEWER LOANS, BIGGER LOANS

The SBA's fiscal 2026 ended September 30. 7(a) lenders approved 56,130 loans for \$32.4 billion, down 28% in count and 13% in dollars from the record \$37.3 billion in fiscal 2025. Dollar volume is still above fiscal 2024's \$31.1 billion. The average 7(a) loan rose 21% to about \$577,000. The 504 program, which finances real estate and equipment, held up better at about \$7.1 billion.



Source: American Banker (October 9, 2026) for FY2026; American Banker and SBA for FY2025; LendingTree analysis of SBA data for FY2024. Official FY2026 year-end files are expected on data.sba.gov in November.

Most of the drop came from Washington, not from hometown businesses. A 43-day federal shutdown meant no 7(a) approvals at all in October 2025. The SBA brought back full underwriting for small loans, and limited eligibility to businesses owned 100% by U.S. citizens and nationals. Industry reports indicate some small-loan lenders pulled back. Smaller loans took the hit, and larger, well-underwritten loans kept moving. The year finished strong: by our estimate, the July-to-September quarter was the busiest of the year. And from July 4, a borrower can carry up to \$10 million combined across 7(a) and 504, double the old limit.

Rule change	Effective
SOP 50 10 8: full underwriting returns; 10% equity injection on changes of ownership	June 1, 2025
Federal shutdown: no 7(a) approvals for 43 days	Oct–Nov 2025
Ownership limited to U.S. citizens and nationals	March 1, 2026
SOFR and Treasury base rates allowed (caps still tied to prime)	March 1, 2026
Combined 7(a) + 504 limit doubled to \$10 million per borrower	July 4, 2026
SOP 50 10 8.1: 1.25x coverage on acquisitions from historical earnings; quality of earnings at \$3M+; independent business valuation on changes of ownership	October 1, 2026
FY2027 fees: 0% upfront fee up to \$700K for manufacturing, food supply chain and rural businesses	October 1, 2026

The rule that matters most for fiscal 2027: since October 1, every SBA 7(a) business acquisition with a purchase price of \$3 million or more needs an independent quality of earnings report, and every initial acquisition must cover its debt 1.25 times (1.15x for expansions) from historical cash flow, with no projections. Buyers, sellers and brokers who prepare for that standard will close; the rest will wait.

4 · THE PRICE OF MONEY

The Federal Reserve raised its target range to 3.75%–4.00% on September 16, its first increase since 2023, and the prime rate moved to 7.00%. Prime is still a quarter point below where it stood a year ago, but the direction changed. NFIB members reported paying an average 8.2% on short-term loans in September, up from 7.5% in August, and a net 8% said they are paying more, the most since June 2025.

Rate	Latest
Federal funds target range (set September 16, 2026)	3.75%–4.00%
WSJ prime rate (a year earlier: 7.25%)	7.00%
Average short-term rate paid by NFIB members, September (long-run average 8.3%)	8.2%
SBA 504 25-year debenture, October 8 sale (September: 6.54%)	6.97%

SBA 7(a) variable-rate maximum	Rule	At 7.00% prime
\$50,000 or less	Prime + 6.5%	13.50%
\$50,001–\$250,000	Prime + 6.0%	13.00%
\$250,001–\$350,000	Prime + 4.5%	11.50%
Over \$350,000	Prime + 3.0%	10.00%

Sources: Federal Reserve; Bankrate (WSJ prime); NFIB Small Business Economic Trends, September 2026; SomerCor 504 debenture sale; SBA maximum spreads under 13 CFR 120.214.

5 · WHO GETS APPROVED, AND WHY NOT

The Federal Reserve's 2026 Small Business Credit Survey of 6,525 employer firms shows how selective the market is. 38% applied for a loan, line of credit or cash advance. Of those, 42% received everything they asked for, 36% received part of it and 22% received nothing. Small banks were the most likely to approve in full.

Lender type	Fully approved	At least partly approved
Small bank	57%	80%
Finance company	50%	81%
Credit union	44%	70%

Top reasons for denial	Share of denied firms
Lender requirements too strict	46%
Too much debt	37%
Low credit score	30%
Insufficient collateral	29%
Weak sales	29%
Lenders don't fund businesses like mine	29%

Firms could name more than one reason. Source: Federal Reserve Banks, Small Business Credit Survey, 2026 Report on Employer Firms (fielded September–November 2025, published March 2026).

Read the denial list as a loan reviewer would. Too much debt, weak sales, thin collateral and low scores are all things a borrower can see coming and fix before applying. And 29% of applicants now go to online lenders, where 60% of borrowers found the cost higher than expected. The cheapest credit goes to the borrower who walks into a community bank ready.

6 · CREDIT QUALITY IS HOLDING

Small-business loans are performing. In Equifax's latest data (August 2026), the share of small-business accounts 31 to 90 days past due fell to 1.65% and the twelve-month default index fell to 3.18%, both lower than a year ago. Delinquency on all business loans at U.S. commercial banks eased to 1.27% in the second quarter.

Business loans, all U.S. commercial banks	Q2 '25	Q3 '25	Q4 '25	Q1 '26	Q2 '26
Delinquency rate	1.29%	1.33%	1.34%	1.33%	1.27%
Charge-off rate	0.58%	0.57%	0.56%	0.59%	0.58%

Sources: Equifax Main Street Lending Report, October 2026; Federal Reserve via FRED (DRBLACBS, CORBLACBS).

The exception is inside the SBA. The trailing-twelve-month 7(a) default rate reached about 4.8% in March 2026, the highest since 2013, which analysts tie to the eased underwriting the SBA has since reversed (Lumos Data analysis of SBA loan records). That is exactly why the SBA tightened, and it means today's SBA loans are being made to a higher standard.

7 · BUYING AND SELLING HOMETOWN BUSINESSES

Retiring owners are selling, and buyers are paying. BizBuySell recorded 2,132 closed sales in the third quarter, about the same as the second quarter and 7% fewer than a year ago, at a median price of \$350,000, up 17%. The median business sold had \$669,801 of revenue and \$156,000 of cash flow.

BizBuySell, Q3 2026	Value
Closed business sales (vs Q3 2025)	2,132 (–7%)
Median sale price (vs Q3 2025)	\$350,000 (+17%)
Price / cash flow, businesses selling for over \$1 million	3.73x
Price / cash flow, businesses selling for under \$1 million	2.30x
Buyers planning to use SBA financing	78%
Brokers naming SBA financing as the top obstacle / interest rates	38% / 34%
Buyers expecting seller financing / owners planning to offer it (Q2)	90% / 29%
Brokers expecting more deals in the next six months	66%

Sources: BizBuySell Insight Report, Q3 2026 (October 16, 2026) and Q2 2026. Larger private companies: GF Data reports an average 7.0x EBITDA in Q2 2026, with total debt at 2.9x EBITDA and senior debt priced at 7.8%. Pepperdine's 2026 Private Capital Markets Report puts businesses under \$1 million of EBITDA at about 4–5x.

Two gaps decide which deals close. The first is seller financing: 90% of buyers expect it, but only 29% of owners plan to offer it, and under the new SBA rules a standby seller note can cover at most half of the buyer's 10% equity. The second is preparation: Pepperdine finds about one in three sale engagements fail to close, usually over an 11–20% price gap, and 64% of sellers have no formal exit plan. Sellers with verified historical financials close faster and at better prices.

8 · FLORIDA

Florida is one of the deepest markets for hometown businesses in the country. Florida borrowers received \$2.14 billion of 7(a) approvals through July 31, 2026, third among states, and the state's four largest metros together list more than 41,000 businesses for sale.

Florida metro, Q3 2026 listings	Listings	Median asking	Median cash flow	Asking / cash flow
Miami–Fort Lauderdale	18,139	\$325,000	\$140,955	3.07x
Tampa–St. Petersburg	12,219	\$300,000	\$131,467	2.95x
Orlando–Kissimmee	7,588	\$270,000	\$122,488	2.87x
Jacksonville	3,521	\$269,500	\$122,180	2.86x

Source: BizBuySell Insight Report data tables, Q3 2026 (listings, current quarter); SBA Pulse aggregate via statranker.org for 7(a) approvals.

9 · WHAT LENDERS REQUIRE NOW

For anyone buying a business with an SBA 7(a) loan from October 1, 2026, these are the terms that decide the answer:

Requirement (SOP 50 10 8.1)	Standard
Debt-service coverage, acquisitions	1.25x on historical cash flow (last fiscal year or two-year average); no projections
Debt-service coverage, expansions	1.15x
Equity injection	10% of the project; standby seller debt counts for at most half
Quality of earnings report	Required at a purchase price of \$3 million or more, commissioned by the lender
Business valuation	Independent business valuation on changes of ownership
Eligibility	Owned 100% by U.S. citizens or nationals
Maximum variable rate, loans over \$350,000	Prime + 3.0% (10.00% today)

How to be the borrower who gets the yes

- Tie your tax returns, financial statements and bank deposits to each other before a lender does it for you.
- Build in a cushion: at 1.25x minimum coverage, plan for 1.35x or better on historical numbers.
- Price the business on cash flow a lender will accept, not on add-backs it will strike.
- For acquisitions of \$3 million or more, line up the quality of earnings work early; it is now on the critical path to closing.
- Sellers: offer a standby note and have a valuation in hand. It widens your buyer pool and shortens your time on market.

10 · WHAT TO WATCH NEXT

Date	Release	Why it matters
October 28	Federal Reserve rate decision	A second hike would push prime to 7.25%
November 2	Fed Senior Loan Officer Survey (October)	Updates bank standards and demand
November	SBA fiscal 2026 year-end data	Official counts, small-loan share, Florida rank
Mid-November	Edition No. 2 of this Index	The first change against this baseline, with every gauge current
Monthly	NFIB and Equifax small-business reports	Rates paid, borrowing and delinquencies
January	BizBuySell Q4 2026	Year-end deal market

FROM THE FOUNDER

I learned lending in bank loan review, where you see every reason a loan gets made and every reason it does not. This Index is built the same way: it reads what lenders actually do, not what anyone hopes they will do. My message to hometown owners this quarter is simple. The money is there. Get your numbers in order, and go get it.

— Phil Baratelli, CPA · Founder, The Baratelli Institute

METHOD AND SOURCES

Gauge	Scoring rule (reading → score)
Bank lending standards	< -10: +2 · -10 to 0: +1 · 0 to 10: 0 · 10 to 20: -1 · > 20: -2
Loan demand	< -20: -2 · -20 to -5: -1 · -5 to 5: 0 · 5 to 20: +1 · > 20: +2
Cost of credit	< -15: +2 · -15 to -5: +1 · -5 to 5: 0 · 5 to 15: -1 · > 15: -2
SBA access	< -20: -2 · -20 to -5: -1 · -5 to 5: 0 · 5 to 20: +1 · > 20: +2
Credit quality	< -25: +2 · -25 to -5: +1 · -5 to 5: 0 · 5 to 25: -1 · > 25: -2
Business-sale market	< -20: -2 · -20 to -5: -1 · -5 to 5: 0 · 5 to 20: +1 · > 20: +2

Index = 50 + 50 × (sum of the six scores ÷ 12), so the Index runs from 0 to 100 and 50 is neutral. A positive score is a tailwind for borrowers. This first edition sets the baseline; the rules stay fixed so each quarter is comparable. Bands: under 30 tight, 30–45 selective, 45–60 neutral, 60–75 easing, over 75 open.

Sources: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey (July 2026) and FOMC statement (September 16, 2026); Federal Reserve Bank of St. Louis FRED (DRTSCIS, DRSDCIS, DRBLACBS, CORBLACBS); Federal Reserve Bank of Kansas City, Small Business Lending Survey Q2 2026; Federal Reserve Banks, Small Business Credit Survey, 2026 Report on Employer Firms; NFIB Small Business Economic Trends, September 2026; Equifax Main Street Lending Report, October 2026; American Banker (October 9, 2026) and Coleman Report (July–September 2026) on SBA lending; SBA SOP 50 10 8.1 (effective October 1, 2026) and FY2027 fee notice; 13 CFR 120.214; Bankrate (prime rate); SomerCor (504 debenture); Cobalt Intelligence / Lumos Data (SBA default rate); BizBuySell Insight Report Q3 2026 and data tables; GF Data via ACG (Q2 2026); Pepperdine Private Capital Markets Report 2026 (published summaries); SBA Pulse via statranker.org (Florida).

Independent editorial analysis for education. Not investment, legal or lending advice. Figures are the latest published as of October 22, 2026 and will be revised by their sources.

About the Institute

The Baratelli Institute publishes practitioner-grade research on companies, deals and hometown credit, written by Philip A. Baratelli, CPA. Mentoring at Scale. www.baratelliinstitute.com

Disclosure: the Institute's founder also leads Baratelli Transaction Advisory, LLC, which provides quality of earnings, due diligence and lender services, including the work the SBA's new quality of earnings rule now requires.

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