Is Educational Debt a Barrier To Buying a Practice?

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We often read and hear that rising educational debt means that no recent graduate can buy a practice. The S&A experience finds that this is rarely true!

Educational debt is regarded by most lenders as "good debt" on a par with home mortgage borrowing. "Bad debt", such as credit card debt and retail charge cards, is more likely to be a red flag for lenders.

Buyers need work experience, typically no more than 2 years, "clean" credit, and little or no cash to buy nearly any practice that has healthy cash flow. "Clean" credit does not necessarily refer to the size of (educational and mortgage) debt, but rather is a reflection of making timely payments on debt that exists. Most credit scoring agencies render a numerical score that is often referred to as a FICO score. If this score is between 650 and 700 or higher, the borrower is usually able to borrow for a practice acquisition.

Educational debts only effect on a loan application is the size of the monthly payment and its effect on cash flow. The lender looks at practice cash flow, subtracts the salary needed to support the buyer's current lifestyle and personal debt service, subtracts a modest safety margin amount, and then subtracts the amount required to service the practice loan. If the remaining amount is a positive number, the loan is likely to be approved.

Educational debt is rarely a barrier to buying a practice. In fact, buy a practice and accelerate the retirement of educational debt!

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