



## The Buyer's Credit Score

As the credit crunch continues and lenders implement more restrictive lending criteria, Business Brokers will need to become more knowledgeable about available lending options, and lending guidelines. One of the key things a lender places a lot of emphasis on is the buyer's personal credit score.

Credit scores range between 200 and 800 with an average score of 670. Many variables are included in the calculation of this score. Three main variables are:

**Payment History.** Were required payments made on time? How many times were there late payments and how late?

**The total amount owed.** If the buyer owes large amounts on several accounts, this will negatively impact his or her credit score.

**Length of credit history.** In general, the longer accounts have been opened, the better. New credit card accounts or new installment debt are considered riskier.

In most cases, the business broker represents the seller. Therefore, discussions involving credit worthiness with potential buyers must be handled professionally, sensitively and confidentially. Many buyers are not aware how their credit score will impact their ability to obtain business acquisition financing. Business Brokers should spend time discussing credit requirements and the small business lending environment with buyers during initial conversations. Some questions and information you may want to consider adding to your communication with buyers.

- Add a line on the buyer registration form that requests the buyer's approximate credit score.
- Make it standard practice that the buyer submits a credit report with their offer. Or, a contingency that once an offer is accepted by the seller, the buyer will provide a copy of their credit score within a limited period. Our office has routinely required this with all offers that included owner financing.
- Have a discussion with the buyer about what minimum credit score will be necessary to obtain outside financing. You may also want to provide the buyer with detailed, written information on loan qualifications, the loan application process, and the various types of SBA loans, etc.
- Ask the buyer if his credit rating is below or above the 670 average.
- Ask the buyer if he has high levels of debt.
- Ask the buyer if he has ever declared bankruptcy, been through a foreclosure, etc.

These are certainly hard, sensitive questions. Even so, part of a Business Broker's job is to ask the hard questions and determine early in the process the buyer's likelihood of obtaining financing.