

TIME TO BUY? FUNDING Q&A

The experts at FTA Finance share their views and thoughts on the state of the current dental market and provide some top tips on the best way to secure funding for a dental practice purchase



The UK has seen many changes over the past year or so - not least the fact we will (at time of going to press...) be leaving the EU on 29 March 2019. There

have been talks about the impact this will have on the banking world but have you seen any immediate evidence of changes in the lenders stance when it comes to dentists seeking funding to buy a dental practice? What do you think the long-term impact will be on dentists seeking funding to acquire a dental practice as a result of Brexit?

A: The past 18 months have been exceptional to say the least with monumental political changes both here in the UK and across the pond in the USA. The long-term effects of both remain difficult to predict, however. short to medium term it remains very much business as usual.

The majority of UK banks who specialise in lending to the dental profession have issued statements to the effect their lending policy and stance remains unchanged and that dental remains a 'green light' sector.

A number of the banks though have used this as an opportunity to try to increase their pricing, in particular for clients who have fixed rates or committed terms due to expire. This does show the benefit of working with an independent broker to help arrange and review your funding position. An FCA-registered broker should have access to all banks, be aware of the expected pricing and keep the bank on the 'straight and narrow' to ensure their client secures competitive terms.

SPECIALIST ADVANTAGES

Q: There are many commercial mortgage brokers out there. What are the key benefits of working with a specialist dental commercial broker as opposed to a general commercial mortgage broker?

A: If you are looking to arrange finance – be it a commercial loan for practice purchase or indeed a residential mortgage, the best advice is always to use an FCA-registered



independent broker who will have access to the whole of market rather than just the opinion of one bank. Generalist mortgage brokers certainly do a good job) however, most generalist brokers will have their own established panel of lenders who are adept at working on property purchase proposals, but will struggle with any form of goodwill or leasehold-linked lending.

Goodwill remains a sizeable element in most dental practice purchases and as such essential you are working with a broker who understands the intricacies of not only goodwill, but also the NHS contract transfer and CQC registration process.

Your broker should be working with you not just to obtain approval to the borrowing but to see your purchase through to when you

actually own the business. Your dental broker should also help you produce an outline business plan and forecasts, not just for the bank, but also increasingly now for the CQC.

TRENDS

Q: What trends have you seen over the past year or so?

A: During 2017 and early 2018 we have continued to see an increase in dental clients seeking funding to help start up new practices. Some are being put off by the high goodwill values for established businesses and have a clear vision that they want to develop a new practice in their own style.

Over the past 12 months we have seen an increase in applications from recently qualified dentists (some at FD stage) seeking

funding for a practice purchase. This does though present certain funding challenges, as most banks would require the applicant to have worked as an associate for a minimum of two years.

The length of time a dental purchase transaction takes to complete remains a continued source of frustration; still on average six months from beginning to end. We have calculated there are 24 separate 'influences' which could affect a purchase completing, ranging from the CQC to third-party landlords. The most straightforward part of our job is securing the finance. Most of our time is spent working with lawyers, accountants, valuers, sales agents, the bank and the CQC to keep our clients' purchases on track.

VARIABLE OPTIONS

Q: Has anything surprised you this year when it comes to providing funding for dentists buying a practice?

A: The wide range of responses we get from the banks when considering funding proposals continues to surprise. Once we have compiled the business proposal and forecasts on behalf of our client we will approach, on average, four banks based on our knowledge of their lending criteria.

As an example, we have a client who has a £350,000 loan facility whose existing five-year fixed rate is due to expire. His current bankers are proposing a follow-on variable rate margin of 5.75%. We have been able to source alternative funding from another high street lender at margin of 2.6%. A saving on interest rate alone in the first year of over £10,000.

We also know that we will obtain different lending responses and terms from the same bank depending on which manager at that bank we approach, so rest assured we work with the proactive ones! This shows how difficult it is for clients who endeavour with a the DIY approach – you really have no way of knowing you are approaching the right bank or indeed the right manager. The benefits of working with an independent specialist broker are clear.

FINAL TIPS

Q: If you could give three tips to help dentists improve their chances of being granted funding what would they be?

- Ensure you are financially pre-assessed by an independent dental finance broker. This will provide you with a whole of market overview of how much you could potentially borrow (rather than just the

opinion of one bank) which should then steer you towards suitably sized practices. There should be no up-front cost for this independent assessment.

- Ensure your CV is up to date and that it expands on your managerial experience. This remains the most important document which banks consider when assessing loan proposals.
- Build up your savings. While it is sometimes possible to secure 95% or even 100% funding, to ensure the most competitive terms you really do need a minimum 10% cash contribution. ●

FTA FINANCE

Focused on providing solutions to funding and finance needs within the healthcare sector, FTA Finance makes applying for finance and the whole funding process a straightforward and seamless experience.

TELEPHONE: 0330 088 11 57

EMAIL: info@ftafinance.co.uk

WEBSITE: www.ftafinance.co.uk

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