

Guaranteeing success

David Brewer considers what the banks are looking for as potential lenders.



Buying a practice can seem a daunting proposition; it's often something that a dentist may

do only once in their career, and therefore they're unlikely to have any experience of the process, so it is worth considering in some detail.

Before agreeing to lend any money banks will likely want to see a summary of the applicant's personal asset/liability profile and personal outgoings, a breakdown of prior earnings (ideally accountant prepared accounts) and bank statements.

The lender will then focus on what the applicant is considering purchasing. The key is establishing the strength of the subject practice

and the scope for growth, and ultimately to demonstrate that any loan can be comfortably repaid based on how the purchaser is proposing to run it.

Of course, it's impossible to predict the future, so dentists should prepare for two scenarios, a conservative (or worst case) model, and a second version showing the full impact of any changes they plan to make. This helps both the lender and purchaser to fully understand the risks associated and demonstrates it is a viable purchase. ➔



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Criteria

Not all banks look for the same thing; credit criteria can vary significantly from lender to lender.

Even within the same bank you can receive a different lending decision based on which individual managers are approached. It's important to know the 'pro-active' managers and exactly who to approach.

Pricing also varies markedly from lender to lender, and the key here is to work with a specialist broker to negotiate competitive and flexible terms.

Your specialist broker will know the manner in which a funding proposal should be presented to the bank and package the case accordingly. This will ensure your proposal is given priority, attracting competitive and flexible terms unlikely to be replicated if you approached the lenders direct.

Regions

In theory there are no regional differences in a bank's lending criteria.

However higher goodwill and property prices in the South East

may make it slightly more straightforward to purchase outside of this area — with the prices generally lower and, as a result, the cash contribution you have to make correspondingly lower and potentially more affordable.

It's a good idea to undertake a financial pre-assessment before you take the plunge. Reputable brokers will do this for you at no cost, providing a realistic purchase 'budget' and point you in the direction of suitably sized practices. A broker can also provide a pre-assessment certificate for purchasers to show to sellers and sales agents that reinforces your position as a serious buyer.

NHS or private

As a rule, lenders prefer NHS to private. The majority of banks prefer the security of NHS income and as a result their lending criteria is positively weighted towards such practices. However, my own view is that this is not necessarily the best approach. If I was buying I would be very interested in a well-established suburban private

practice because I know I am in greater control of future revenue streams without the risk of the NHS potentially changing my terms at some point in the future.

Rates

Recently we have seen bank loan margins ranging from a low of 1.8 per cent over base rate up to an astonishing 7.6 per cent over base.

A specialist healthcare broker will have fostered links and agreements with the main lenders and in certain cases can obtain preferential borrowing terms which may not be available if a client approaches the lender direct.

Even as a commercial mortgage advisor myself, when my fixed rate house mortgage expired I engaged the services of a specialist independent personal mortgage advisor to seek the best deal for me. I did not have the time to research the personal mortgage myself and certainly would not have had the leverage as an individual to obtain the terms my mortgage broker secured. If it works for your home, it can work for your business too!

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