Buying a dental practice – everything you need to know

A series of articles by Jon Drysdale. Part one – How to make the bank manager like you!

If you plan to borrow money to buy a dental practice put yourself in your bank manager’s shoes. How will they view you as an applicant?

Most banks have a checklist of attributes that make up the ‘ideal’ borrower. Typically, associates won’t meet all these criteria. However, present yourself as strongly as possible and overcome your weaknesses as a prospective borrower where possible.

When did you qualify?

This is one aspect of your personal profile that you can’t change. While banks don’t require a minimum number of years post-qualification it is likely they will expect you to have at least three to five years of experience in practice. Associates without this may struggle to convince the banks that they have the track record of personal performance to take on the principal’s role.

This also applies to a dentist who intends to move from a salaried post straight into practice ownership, regardless of their experience. So, if you are recently qualified (within three years of FD), gaining another couple of years at the practice ‘coal face’ is a good idea.

Do you have the right professional experience?

The ‘wrong’ kind of experience in dentistry can detract from the strength of your application. For example, you may be thinking of buying an NHS practice with a challenging UDA requirement, in which you intend to perform personally. If your past experience is in private dentistry the bank may question your ability to meet the UDA target.

Likewise, if you plan to take over a personal UDA target significantly higher than you’ve been working to, the bank will ask how you intend to achieve this. In some circumstances this can be explained. You may, for example, be able to reassure the bank that you can work additional days to fulfil the UDA requirement at the new practice. It is important to offer this reassurance to the bank before they ask – to demonstrate your pragmatism.

How are your management skills?

A dental practice is now a complex business with practice owners performing regulatory, legal and personnel functions as well as dentistry. Demonstrating experience in these areas will strengthen your financial application. There are plenty of management and leadership CPD opportunities within dentistry and you should research the options available.

Do your clinical skills fit the new practice?

A strong CV is essential, especially if your target practice requires specific clinical skills to maintain turnover. The bank will examine this, particularly where the new practice has an income stream from a specialist area of dentistry. If your clinical skills aren’t obviously aligned with this you will need a robust business plan to explain how you expect to bridge any skills gap.

Your personal financial profile

Individuals with a strong personal financial profile reassure banks. You don’t need to be a Rockefeller but you should be able to demonstrate the ability to manage your finances responsibly. If monthly repayments to unsecured credit (personal loans, credit cards etc.) absorb all your disposable income, this will be viewed negatively. Mortgage debt tends to be treated differently.

As I said, banks prefer to lend to individuals with several years post-qualifying experience. In part this is because several years of financial information such as associate accounts will need to support your application. Financial information in the form of personal bank statements and pay slips from your current practice will demonstrate the consistency of your fee income and your financial solvency.

What security can you offer the bank?

I am often asked what level of deposit the bank will expect when lending for a practice purchase. There is no straight answer to this other than the likelihood that they will not usually lend 100 per cent on goodwill and equipment. You should expect to offer between 10 per cent and 20 per cent of the goodwill and equipment value by way of cash deposit or alternative security. Banks may lend 100 per cent of the freehold value of the property, which will be used as security.

Alternative security is usually in the form of a residential property, which involves placing a ‘second charge’ on your main residence. This may be a problem if your main residence is jointly owned because the joint owner will need to be party to the arrangement and the bank will insist they take legal advice (at your expense). The bank will write down the value of your property by 50 per cent before calculating the amount of security available.

For example, if you have a residential property valued at £500,000, the written down value would be £210,000 less any outstanding mortgage. This may leave little in the way of actual security for the bank to take a charge over.

Borrowing in the name of a limited company doesn’t generally remove personal financial risk. If the bank agrees to lend to a limited company, of which you are a director, they will expect you to provide personal guarantees. In short, if the company defaults on the loan you will be personally liable for repayment of the debt.

Next I will cover finding a practice, ownership options and valuing goodwill.

Author Bio

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