Focus on finance

Jon Drysdale provides advice for dentists buying a practice

Securing finance for a practice purchase can be problematic, particularly in the aftermath of the banking crisis. However, small businesses remain critical to the economy and there are various measures in place to improve access to credit.

There are various measures in place to improve bank credit. In essence this reduces the bank’s risk.

Dentists should be aware that there are ‘strings attached’ where EFG is used, which in many cases reduces the monthly repayment cost of EFG will be higher. Secondly an annual premium is paid to BIS (Department for Business Innovation & Skills). This additional premium is two per cent pa of the outstanding loan balance

Interest rates where EFG is concerned are competitive and predictable implant treatment into your professional practice.

The Enterprise Finance guarantee (EFG) is a guarantee facility for small businesses, specifically for new loans. For a practice purchase where the required funding is relatively large EFG can prove invaluable. Often the traditional banks will use EFG in combination with their own lending facility. In essence this reduces the bank’s risk.

Dentists should be aware that there are ‘strings attached’ where EFG is used, which increases the cost of borrowing.

Firstly there is a limitation on the loan term to 10 years. Dentists planning on repaying their loan over a longer period should therefore be aware that the monthly repayment cost of EFG will be higher. Secondly an annual premium is paid to BIS (Department for Business Innovation & Skills). This additional premium is two per cent pa of the outstanding loan balance (therefore reducing), payable quarterly in advance.

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The need to repay the loan at a relatively fast pace means less interest is paid overall. When used in combination with traditional bank funding EFG can be a useful means of securing finance.

European Investment Bank (EIB) funding

You won’t find a branch of the EIB (European Investment Bank) on your local High Street but they might just help you to purchase a dental practice.

Since 2008 the EIB has granted loans to small and medium sized enterprises (SMEs) through UK commercial banks. The EIB see SMEs as ‘critical’ to the European economy, so much so that a staggering EUR 10 Billion was made available in 2010.

Amongst the 160,000 SMEs receiving Euro funding since 2008 were a number of dentists, who might otherwise have struggled to arrange finance for their practice purchase. EIB funding comes with very few strings attached and can command a lower interest rate than traditional commercial loans. The cash is available through well known commercial banks with specialist ‘healthcare’ divisions. However, this funding is not a bottomless pit and a call to action is required now to avoid disappointment.

Your finance application

Securing finance for a practice purchase can be problematic and success is largely down to the strength of your individual financial profile as well as that of your target practice. The strength and quality of your application is critical to achieving a competitive interest rate and terms.

Your finance case will be assessed by several bank underwriters before approval (or rejection). Once outline approval is granted you will have a number of pre-conditions to fulfil such as insurance requirements, property valuations or lease arrangements and confirmation of the NHS contract transfer. Some of this is best dealt with by a suitably qualified (dental) solicitor who should also ensure that you are protected in respect of staff issues, restrictive covenants and serious clinical liabilities.

With all of the above in mind the purchase process can take several months. Professional guidance has proved invaluable to many associates purchasing a practice.

To find out where European funding is available and how to access EFG funding, please contact the author.

About the author

Jon Drysdale is a Director of Practice Financial Management (PFM) and is a qualified Independent Financial Adviser. PFM offer advice to dentists considering purchasing a practice and run regular BDA CPD approved practice purchase seminars. For further information email jon.drysdale@pfmdental.co.uk, call Jon on 01904 670820 or visit www.pfmdental.co.uk

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*There are various measures in place to improve bank credit.*

‘Small businesses are the innocent victims of the credit crunch. The lack of start-up capital has been a long standing problem in the British economy’

George Osborne’s Budget speech 15 March 2011