David Brewer discusses savings, deposits and mortgages

What comes first - the chicken or the egg?

Unlike the chicken and egg conundrum, there is a clearer answer to this question.

In the heady days of easy credit in the early to late 2000’s, raising finance for practice purchase was relatively straightforward - as long as you had a GDC number and a pulse, the banks would probably lend to you - often the full 100 per cent of any proposal with particular emphasis on your earning potential (or possibly Bank of Mum and Dad) behind them, which could be used. However this is where the dilemma - Do you put your deposit towards your first house or do you buy your first practice?

Past evidence has shown that practice purchase FIRST is the most effective way forward. If you buy your house first you will have used your own/family savings towards the sizable deposit required by the mortgage lender leaving nothing left over to put down to wards your first house or do you buy your first practice?

The banks now take a much more critical approach to any new lending proposal (be it for house or any type of business including dental practice purchase). The banks now take a much more critical approach to any new lending proposal (be it for house or any type of business including dental practice purchase).

As we all know, the banks have a reasonable level of savings, deposits and mortgages which in turn should enable you to earn considerably more than you would have done as an associate - leading to your savings accumulating at a much faster rate thus putting a deposit down for a much larger house closer to where the practice is. Simples...

The same analogy can be applied to purchase of investment properties (normally residential buy to let). If your wish is for practice ownership, in the vast majority of cases you would earn more £ for £ putting a dental practice compared with investing in property.

Equity in your house or own/family investment property can be considered by the bank as quasi contribution - however at present with property prices static at best, any deposit/equity within the property may not be as high as you think. The banks tend to place a 'security' value of between 70 per cent to 80 per cent of the value of the property LESS any existing mortgage. Eg House value £500K with £300K mortgage. The banks value at say 70 per cent would be £200K. (ie 70 per cent of £500K, less £300K) much less than the ‘true’ equity of £200K.

If you are seeking to raise funding for practice purchase it remains essential your application is presented in the right manner.

One of the biggest changes in banks lending requirements is the need for the purchaser to commit ‘something’ towards the purchase - ideally a cash contribution. As a rule of thumb, a contribution of between 10 per cent and 20 per cent of goodwill purchase is often sought by the banks. The same goes for house purchase as well - the days of being able to raise 100 per cent mortgage on your house are a distant memory. Nowadays if you want a decent house mortgage you need to put down a sizable cash contribution.

Most associates do normally have a reasonable level of savings (or possibly Bank of Mum and Dad) behind them, which could be used. However this is where the dilemma - Do you put your deposit towards your first house or do you buy your first practice?

Also... it may well be that you buy your house first and later find the ideal practice many miles away - so you will end up having to go through the whole house sell/buy process again.

By utilising your/family savings of say 10 per cent toward the purchase of a dental practice, you will of course be the proud owner of the practice 

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**About the author**

David Brewer has worked with the dental profession for over 15 years helping over 1000 clients secure funding for practice purchase and start up. With his banking background and dentist prescriber approach, he is ideally placed to provide advice and guidance to clients who are looking to purchase a practice or simply review their existing arrangements. David works with Frank Taylor and Associates and can be contacted on 0845 123456 or david.brewer@f2a.co.uk

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