An associate’s guide to practice purchase

David Brewer advises associates

As we move into the new year many resolutions will have already been broken but from past experience we know associates who have made a resolution to buy a dental practice are not easily swayed and the majority of associates we deal with aspire to become practice owners, possibly as a result of logical career progression or simply to protect their own position and to be in control as they see their income share percentage reducing.

How they must look enviously at their colleagues who purchased practices in the early to mid-2000s when it seemed the banks would lend to anyone simply because they were a dentist... asking very few questions and making available the full asking purchase price by way of loan - quite often at rock bottom rates.

As we all know the financial world has now changed somewhat...

The banks are now taking a much more critical approach to any finance requests and will review in depth all aspects of any proposal.

The bank’s main focus nowadays is on the individual (or individuals) looking to buy the practice and it is essential therefore to ensure you present yourself in the best possible terms to the bank in question – with particular attention given to three areas.

Your CV
The bank will ask for this. Ensure your CV is fully up to date – include all positions worked from VT onwards and try to avoid any gaps in employment/working history. Include any specialisms/additional qualifications and having worked both Private and NHS at a number of practices will be viewed as a good thing. Highlight also any managerial or staff responsibilities you may have undertaken especially if you have any separate business qualifications and/or family friends who do.

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Track Record / Earnings
Most banks would now expect any applicant to have worked at least TWO years as an associate in the UK before any lending for practice purchase can be considered.

It is essential that your financial accounts are kept up to date as these will form a key part of any lending assessment - with the banks looking closely at prior GROSS earnings (before current principal) as a guide to what you could achieve as practice owner. For example, if you gross £40k as associate (take home say £40k)
but looking to acquire a practice where current owner grosses £250k this may be considered too big a jump – unless you can reasonably explain why...

Deposit / Contribution
The banks will certainly be looking for any prospective purchaser to put a deposit down towards any new purchase. The banks would prefer cash but will consider equity in property as a quasi-contribution – but be prepared as banks may not consider your property asset to be worth as much as you think. For security purposes they will tend to place a ‘security’ value of somewhere near 70 per cent of open market value on the property – so once discounted by this figure – less an existing mortgage there tends to be no equity left.

For example: a house with a value £500,000 and a £100,000 mortgage.

Banks would value at 70 per cent of £500k less the mortgage leaving ‘security’ value of £50,000 (somewhat less than the true equity of £200,000).

As a rule of thumb 20 per cent contribution is required by the banks, however in certain cases 10 per cent can be considered (and the banks are often happy to include a contribution – cash or property - which is gifted from family – a common way for purchasers to get onto the practice owning ladder).

TOP TIP... BUY YOUR PRACTICE FIRST AND HOUSE SECOND - your deposit can be put towards the practice purchase. Once you have

the practice you would expect to earn more than you would as an associate - you should then be able to accumulate savings at a faster rate which will then enable you to put a deposit down for a larger house.

In most cases you would earn more pound for pound purchasing a dental practice than investing in property.

The banks ARE still lending for practice purchase and the dental sector is viewed by them as relatively low risk - which is great news for prospective purchasers.

HOWEVER it is essential your application is presented in the right manner to the right person at the right bank. Simply walking in to your local branch will not achieve the right result – and could go against you if the local manager does not understand the profession and says ‘no’. Once you receive a ‘no’ it is then extremely difficult to overcome this.

ALWAYS engage the services of an independent specialist to work on your behalf (we currently have access to eleven banks who are actively lending to the dental market) – who will package the proposal in a manner which will satisfy the bank’s credit criteria (all banks have slightly different requirements) and ensure you are personally introduced to a number of the specialist dental divisions of these banks - by involving more than one bank a degree of competition can also be generated to ensure more competitive terms secured.

Remember that you only get one chance to make a first impression with the Bank which is crucial in today’s market for raising Practice finance - make sure you get it right…

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