

# Funding a practice

Andy White explains how the process works.



So, you've found a practice and you want to make an offer – but you need a loan. What are the banks going to look at? Firstly, they will want to know whether you have enough of a deposit for the practice you wish to buy.

As a general rule of thumb, an NHS or mixed practice valued at under £500k usually requires a 10 per cent deposit contribution on the goodwill of



**Andy White**

is a financial consultant at DE Finance.

the business, whilst practices valued at over £500k typically demand a 20 per cent contribution.

The required deposit for a private practice can range from 15–25 per cent, as they are perceived as higher risk for lenders.

These deposits can be made up of cash and security. If, for instance, you were looking to buy a £700k practice that requires a 20 per cent deposit contribution of £140k, you may still be able to secure a loan if you have £70k in cash savings, plus an additional £70k of lending value in your property. Overall, after forming 20 per cent, you are now at 80 per cent LTV, and most lenders would be happy to proceed on that basis.

## Experience

Applicants must typically have at least two years' experience post-completion

of foundation training to be considered for a loan. An exception to this may be in the case of a newly qualified professional partnering with one who is more established.

Ideally, lenders want reassurance that at least one of the applicants has an understanding of how a practice is run or, preferably, experience managing a practice in some capacity.

Equally, there have been cases of clinicians changing careers very early on after qualifying. The implications can be significant if a buyer decides they no longer wish to be a dentist, but has taken out a huge loan against their name to purchase a practice. In the eyes of a lender, experience revolves around the buyer being mature of mind, certain of both their dental career path and that they wish to buy a practice. It's not uncommon for clinicians to work as an associate ➔

For 10 to 15 years before owning a practice.

### Logistics

Another factor that lenders will consider during loan applications is logistics. Is the practice you are looking to buy within a commutable distance? Are you looking to take on more than one site? Do you have time to run the practice and work within it? These are just some of the questions that will need to be answered by your business proposal, which takes into account practice profitability and overall financial aspects.

Essentially, buyers must present what they hope to do through the lender, financially and practically. For instance, an eight-surgery practice may not be a practical option for a buyer that is used to managing just one or two members of staff. The same goes for multiple sites – if a buyer wishes to purchase two practices but one is in Nottingham and the other is in Penzance, it's probably impractical to take on both practices at once.

From a lender's point of view, your plans must be realistic.

### Debt serviceability and debt service cover

Lenders will also consider the profitability of the practice being purchased. When assessing a practice's lending viability, a lender will likely 'stress' the loan repayments to a higher level; possibly between six and seven per cent.

The logic behind this relates to the Bank of England base rate – if this were to increase by three to 3.5 per cent, for example, lenders want to be sure that a buyer can still afford their repayments. This hypothetical exercise also needs to show the loan can be repaid more than once, allowing for sufficient debt service cover, which ranges from 1.25x to 1.75x, depending on the lender.

Your projected salary also plays a role. Let's say you're earning £100k a year as an associate but wish to buy a practice. However, the practice you want to buy might only be able to pay you a salary of £60k,

according to a lender's calculations.

In this instance, you may have to either demonstrate that you are able to generate an income elsewhere to top up your annual salary up to £100k, or that your annual expenses are covered comfortably by the proposed £60k a year. However, it's important to bear in mind that lenders are not going to expect you to significantly change your lifestyle simply to buy a practice.

### Expert advice

Getting your ducks in a row early on is crucial to successfully securing finance for a dental practice. You can save yourself a great deal of time and effort by working with a professional broker, such as DE Finance, to assess the practice you wish to purchase from the perspective of not just one, but multiple lenders. Using an expert team will ensure that the opportunity aligns with a suitable lender who can offer the best loan for you, enabling you to secure the strongest position ahead of any offer you decide to make on your dream practice.

## LISTEN AND SUBSCRIBE

Listen to *The Dentist* podcast for in-depth discussions on topics of interest from across dentistry. The series features conversations with leading figures from across the profession and industry, helping educate and inform listeners on the important issues of the day.

EP 1-7 available

