Start by choosing the right adviser

Choosing the right financial adviser you can trust to act on your behalf in the purchase or developing your own practice from squat is one of the most important steps you can take. Finding the right adviser will make the whole process as trouble free as possible.

You should consider finding a specialist independent financial adviser to dentists who has particular experience of the challenges and problems dentists face when planning their finances.

Check that the firm has developed close links with firms of accountants, solicitors and other professionals with expertise in working with dentists. This means that in addition to selecting the right finance, you have access to a broad range of specialist services saving you valuable time, effort and potentially even more money.

Make sure your broker will keep you informed of the loan application as much as possible throughout.

A specialist independent financial adviser to dentists will take into account your current personal and financial situation when helping you buy a dental practice.

10 Tips to Setting up a squat practice

1. The first step is preparation. Start by observing the management of your current place of work from a business point of view, as though you were the principal. Consider the different elements which make it successful (or not!). This is information which will help you establish good working practices.

2. Planning is vital. If you’ve been thinking of setting up a practice for a while and have some ‘ideals’ of what you want, commit them to paper so you can show yourself and others what you are trying to achieve.

3. The location of your new business will be the key to its success. Where you are, and how accessible you are, will determine the size of your catchment population, the type of patients you attract and the availability and quality of your staff. Consider buying a practice west of where you live so you’re not driving directly into the sun in the morning and evening.

4. Nobody can establish a business of any sort without finance, and presenting your bank manager with ideas as you request a loan can be extremely daunting. Do your homework – if you know what you’re talking about you’ll naturally be more confident - be thoroughly professional and be honest. Consider using a broker to assist you, as you may be offered better terms or an interview with a specialist manager.

5. With premises and finance safely acquired, you must carefully consider the design of your new practice. The location and the type of clientele you seek to attract should be reflected in the atmosphere you establish within the practice. There are a number of excellent, experienced, specialist design and planning consultants who can introduce you to options which have the ‘look’ or ‘feel’ of whatever you think is appropriate.
6. You can’t do it all by yourself! Your team will make or break your success, and you must try to find like-minded individuals who share your vision and want to be part of your creation. If you can inspire loyalty and generate a culture where success is shared by all, you’ll have a happy, motivated team to help you achieve your goals.

7. Equipment, whether purchased or leased, needs to be considered carefully. It’s easy to be carried away at the outset! You must identify what is essential, and then resist the temptation to buy what you want as opposed to what you need. You can often negotiate a discount when buying equipment for a complete surgery, so make sure you shop around, and drive a hard bargain!

8. Publicity is something that you can’t start too soon. The minute you’re confident that work is progressing and you have settled on an opening day, start your campaign. You want the whole town to know you’ve arrived, so build up an awareness that the newest and smartest practice in the district is open for business. To really get noticed, start with a well advertised special event.

9. Clever marketing will target the type of patients you want to attract by letting them know the treatments you offer, when you’re open, where you are, who will treat them, and other specifics about your practice such as your specialties and the standards you set.

10. And for the final point, we make no apology for returning to - LOCATION! Where your practice is situated is undoubtedly the single most important factor which will influence your career. Get it right and you have laid the foundation for success, and very nearly built the first two storeys!

Getting the finance

The current banking system
With the recent crash of AA rated Icelandic banks, Lehman Brothers and the governments response to nationalise Northern Rock, Bradford & Bingley, and make significant investments in RBS and HBOS there is no doubt that the banking world has entered a completely new phase.

LIBOR (the rate that banks lend to each other) is slower coming down which in theory should mean that banks will find it easier to borrow money and then lend on to customers. However despite the above nationalisations, various government assurances, Bank of England cash injections and the lowest interest rate in the Banks 315 year history there is still a huge amount of uncertainty in the banking sector. You might therefore be forgiven for thinking that as a dentist looking to set up or expand your practice you would struggle to get finance.

However, for the time being, the few banks that specialise in lending to dentists appear to be getting on with doing just that.

Lending criteria
The lending criteria and guidelines have not changed significantly from eighteen months ago when the problems at Northern Rock kicked off this present banking crisis. The main area the banks are interested in is serviceability and whether you can afford to maintain the monthly loan repayments.

For dentists with existing accounts it’s fairly easy to prove serviceability as the income stream is normally reasonably steady with either NHS contracts, payments plans or a full book.
As a result of this, banks do look favourably on dentists and consider higher loan amounts and Loan to Values (LTVs) compared with a mainstream practice. So the fact that with the new contract, the income stream is now more regular, added to the significant levels of turnover has made getting finance even easier for a dentist.

Other than serviceability, the banks will want to know that your personal situation is stable. The key indicators of this are significant savings, equity in your main residence and other investment properties, and monthly net income higher than your outgoings.

The banks are also interested in your experience and you can evidence that with a CV. The more you can prove your expertise, the greater flexibility will be given to your finance requirements.

So has anything changed recently?
The main recent change is the actual cost of borrowing rather than the ability to borrow. Previously where interest rates were being negotiated at 1% above base rate with perhaps a 1% arrangement fee, this has now been pushed up to between 1.75% and 3% above base rate and the fees tend to be even harder to negotiate. However with the latest Bank of England base rate cut to 0.5% this would still take the total rate up to only 4.5%, which is still extremely competitive for a commercial loan.

The new NHS contract
Although there is a significant amount of controversy over the new contract and how it’s worked out for dentists there is a much more regular and steady income stream throughout the year which makes planning and budgeting much easier.

When a bank is lending, their main focus is on serviceability of the loan – how much of the profits will be available to pay the interest and loan repayments. So if you can provide accounts for previous years and management information for the current year, you’re far more likely to not only get 100% finance but be able to negotiate a competitive interest rate as well.

Reducing dependence on NHS
As a result of the controversy there is now an increasing number of dentists trying to reduce their dependence on the NHS ‘guarantee’ and increasing their private work, especially with the increasing opportunities with adults such as cosmetic and implant treatment. However without the NHS income stream the banks will want to be sure there are sufficient private patients, referrals or marketing activity to ensure the continued serviceability of the loan.

The essential elements of your ‘Business Plan’
Banks do not always need to see a formal business plan. Typically for a purchase the bank is mainly interested in the accounts of the practice and the dentist’s experience. A newly qualified dentist might struggle getting finance to buy a multi practice surgery with several million pounds turnover even with an excellent business plan, whereas an experienced principal with several years of accounts illustrating profitability and therefore serviceability of the loan might not even need to complete one.

The important element when dealing with the banks is to do your homework – if you know what you’re talking about you’ll naturally be more confident and professional. I had a client once who wanted to create a dental surgery on the ground floor and several flats upstairs, but this was an issue for the banks as although they could see the client was a successful practitioner he had no proven experience as a developer.
You should therefore consider using a broker to assist you, as you may be offered better terms or an interview with a specialist manager.

Whether the banks request it or not it might be useful to confirm viability for yourself by writing a suitable business plan. Core elements in this plan for a purchase might include:

1. The sales particulars of the business in question - what the practice is costing to buy and/or refurbish. What are the reasons behind the sale?
2. Three years historic accounts for the business in question.
3. Forecasts and narrative for the next few years
4. Some background on the buyers own personal accounts.

Your personal account perspective can be easily identified as part of the ‘Asset Liability Income Expenditure’ outline that we recommend to all our customers. This ‘snapshot’ can demonstrate the sound platform upon which you wish to build. You can either prepare this statement yourself or your bank can help facilitate this with appropriate forms which can be completed fairly easily.

Generally speaking a bank will lend to a practice against a combination of the freehold property value, the practice’s ‘goodwill’ and its fixtures and fittings, so personal investment is not always necessary.

Key elements to feature in a business plan based on expansion rather than purchase might include:

- What do you want to achieve with the practice? What stepping stones do you need to take things forward over the next couple of years?
- How are you going to achieve these goals? What will you need to set-up, refurbish, upgrade or purchase in order to realise this and how much will this cost? This then need to be supported with financials including cash flow, profits loss and balance sheet forecasts. How do these fit into your forecasts?
- Where are your future patients/customers going to come from? - Can you acquire more commitment for the PCT? Will you be looking to convert them from the NHS to private plans or are there planned ‘local marketing initiatives’?
- How are you going to differentiate your practice?
- Who will be working with you? Other Associates? What specialities do they offer? How will you practice be different from the competition? What will set you apart?
- Proof that you are a registered dentist. This can be easily achieved by citing your registration number within the business plan.

Developing a robust business plan will often throw up new challenges and opportunities that you had not considered before. However, you can work many of these through with your bank or finance provider to find a bespoke financial solution to each one.
Calculating the financial realities
Once you have developed a business plan you will need to consider whether your funding request is financially viable.

Typically a bank will lend money against both the practice’s freehold – often up to 100% of the value - as well as up to 100% (or possibly more) of the practice’s existing turnover.

You need to ensure that you build into your calculations not only the interest costs, but also other key factors like your own income and capital costs.

The structure of your bank facilities
The structure of the facilities your bank will provide to meet a successful funding application will depend entirely upon your individual circumstances. If the bank can provide the overall funding for the purchase or re-financing with a capital loan for a prescriptive period they will do so. A small overdraft, in case of need may also be provided to help cover any emergencies in the practice’s cash flow and banks readily work with specialist equipment providers when required. On the few occasions when the bank cannot provide enough traditional loan finance they may be able to help a dentist acquire an additional loan from an alternative source, such as lease finance on some of the equipment.

One of the unknowns in any business is future interest rate movements. To mitigate against possible rises the bank should explain to its customers the options around variable rate and fixed rate at the outset.

Then select the type of mortgage

Variable rate
With a variable rate mortgage your monthly payments go up or down with interest rates changes. So if you think the Bank of England base rates will go down then a variable rate might be for you. Typically these variable rates will be expressed as say 2.75% above base rate.

Fixed rate
With a fixed rate mortgage, no matter what happens to the Bank of England rate, your interest rate will stay the same for a set period. This means you’ll know exactly what you have to pay, so if you are looking for certainty when budgeting, a fixed rate is for you. If interest rates fall, yours won’t - so you could find yourself paying more than you would with a variable rate mortgage. When the fixed rate period ends your monthly payments will change as your mortgage reverts to the standard variable rate.

Offset mortgages
A relatively new mortgage type where you link your current, savings or deposit accounts to the mortgage, so that the positive account balances are offset against the mortgage resulting in a reduced interest payment or reduced term of years. You do not receive any interest on your savings. Not many commercial lenders offer this facility.

Interest only mortgages
With an interest only mortgage your repayments only cover the interest on the mortgage amount and do not repay any of the underlying loan capital. Typically, many lenders will offer an interest only mortgage for the first 12 months, after which you will be switched to a repayment mortgage over the number of years agreed.
24 Ways Essential Money Can Help YOU

1. We hold your hands from the beginning to the end – we don’t just help you get the finance, we will make sure that the surveyor, accountant, lenders and both sets of solicitors are all talking to each other and exchange and completion are as painless as it should be.

2. We have formed and maintain close relationships with the Development Managers of the six main lenders that lend to dentists which will help save you hours of time finding the key person to speak to at a bank. We provide an unbiased opinion on the best finance available.

3. We recommend the best deal for you even if the lender does not pay us. However we do run a business so we would have to charge a fee instead.

4. True cost comparison – we will do a true comparison of all the costs, including interest costs, arrangement, security and valuation fees.

5. Refinancing - We offer a Switch or Stay comparison to see if you should stay with your lender. We will do a true comparison of all the costs, including interest costs, arrangement, security and valuation fees, deeds release fees, telegraphic transfer fees, broker fees and insurance fees.

6. Essential Money Limited is an Independent Financial Adviser company and you therefore have access to whole of market independent financial advice on mortgage protection, savings plans, pensions, and pretty much anything else to do with money.

7. We can help you negotiate on the purchase price of your practice, so if it’s your first purchase we can point out the pitfalls and help prevent you paying more than necessary.

8. Award winning advice – Mortgage Adviser of the year winner 2005. Our senior mortgage associate has 16 years experience in the mortgage industry, which means you have the peace of mind knowing you are in safe, trusted hands.

9. We have direct access to lenders’ underwriters who have a pre-agreed lending policy for dental clients – particularly for VDPs and young associates without accounts.

10. We will check affordability and whether lenders are likely to lend – before you make an offer on a practice.

11. We will chase the solicitors, accountants, valuers on your behalf reducing the amount of time you have to pick up the phone chasing things yourself.

12. We advise not just the rate and all the associated fees but also on which lender is offering good service. So if you want a quick completion for a purchase we’d recommend a lender that’s super fast and can get an offer out within days rather than weeks.

13. We can help arrange practice expenses cover at very competitive rates.
Working with the right partners to secure funding

Whilst the majority of dentists may have modest financial expertise, it will be a relief to learn that there are banks and IFAs with specialist healthcare teams who can provide this help.

Once you’ve established a relationship with such a specialist bank over many years, and consistently repaid loans and overdrafts and maintained payments, your bank is far more likely to lend on any proposed expansion plans. So although it might be tempting to switch lenders for a ½% reduction in rates, with the loss of goodwill and the additional fees to switch, you may be better to maintain a relationship with your current bank.

Your bank should also offer flexibility in its financial structures allowing it to fix rates to create some security around initial repayments. Banks who view the dental sector as a key market will provide a prompt response ‘in principle’ to your funding application allowing you to move quickly and with confidence.

The banks will also work with specialist valuers as they can accurately assess goodwill, equipment, fixtures and fittings.

In order to secure the best possible funding targeted to a dentist’s specific requirements, we recommend our customers work with specialist accountants such as the ASPD (Association of Specialist Providers to Dentists) as they have a detailed day to day knowledge of the intricacies of dental accountancy and may be able to help by benchmarking your practice against the sector average.

Working with the right team of professionals will allow you to focus on working with patients, building your business and improving your skills, safe in the knowledge that your business has been established upon stable, financially viable and rewarding foundations.

What our clients say about us

“IT was a pleasure dealing with you and I thought your patience when dealing with us was a real credit to you as I know that my questioning can frustrate a saint !. ..... Thanks again, we really did appreciate your help and guidance.”

Dean Pappadakis & Annika Bizon

“Thomas has always offered sound advice and nothing is ever too much trouble for him. I know that should I need advice or guidance he is always at the end of the phone or an email. I would wholly recommend Thomas and Essential Money as I have found them to be extremely customer focused, excellent advisors and very professional.”

Eamonn McDaid – Chilwell dp

“I have worked with Thomas for many years now and I have always found him to be very keen, enthusiastic and reliable. He acts rapidly once an action is decided and is refreshingly spontaneous.... excellent and would recommend him 100%!”

Dr. Joyce E Trail - Medical Spa Studios Birmingham
“...we can now concentrate just on our work knowing that our financial matters are in good hands.... Being a South African it is difficult to find a competitive mortgage rate. I left everything in Thomas’ hand and to the surprise of the agent I had a mortgage set up in four weeks. I already recommended his company to two of my friends, who also have been very satisfied with their really outstanding service.”

Dr Johan & Ronette Goosen - Ramsbottom Dental Care

“Thank you so much for the excellent service over the years. Be assured of my loyalty in years to come.”

Walter Reynecke - Thurlow Dental Care

“It is my pleasure to recommend Sarah as she has given me excellent service. When I think about how I sweated sorting out mortgages myself before!!!”

Peter Huntley - Quality Orthodontics

**Step-by-step guide to buying a practice**

- Look for a practice or property
- Negotiate with vendor and Make an offer
- Engage a specialist dental solicitor - visit [www.aspd.co.uk](http://www.aspd.co.uk)
- Apply for the finance. You are likely to need 3 years; 6 months bank statements; asset, liability, income and expenditure statement; CV; vendors accounts
- Once the loan has passed credit the lender arranges the survey
- Once the lender is happy with the valuation, they will issue a mortgage offer. Copies will be sent to you, your solicitor and your IFA
- Comply with offer conditions such as life and practice expenses and buildings & contents insurance cover from exchange of contracts
- Exchange contracts, when both vendors and buyers solicitors have agreed on the details. You are then legally bound to purchase the property
- Completion at an agreed time after exchange date
Our fees

For arranging practice or commercial finance a fee of 0.5% of the loan amount is chargeable on completion which is usually paid by the lender. A fee of 0.25% is charged for re-negotiating existing practice finance where any savings are made.

Practice Finance is not regulated by the FSA.

For full details of our fees please visit www.essentialmoney.co.uk

For details on how Essential Money can help change the way you plan your finances call 0121 685 5060 or you are very welcome to visit us at our offices at 8 Greenfield Crescent Edgbaston Birmingham B15 3BE