

# What banks want to see before lending

With over 5,000 associates registered with **Frank Taylor & Associates** looking to buy a practice, here is a brief overview of what banks look for in terms of lending criteria

Your CV is a most important document. Banks will require comfort that you have suitable managerial experience to be able to run/manage the practice in question.

They will also want to see a summary of your asset/liability profile, a breakdown of your past earnings and, most importantly, details of exactly what you are considering purchasing, the strength of the business and whether any loan can be repaid based on how you are proposing to run it.

## Do all banks look for the same thing?

Credit criteria varies markedly, some are happy to consider a much lower cash contribution going in, others prefer predominantly NHS practices, and attitudes to freehold/leasehold also vary sizably from lender to lender. This is where an individual trying to arrange funding directly may become unstuck.

## Are there regional differences?

In theory, no. A bank's lending criteria to acquire a practice in Cornwall for example would be the similar to one in the south east of England. That said, with much higher goodwill and property prices in the south east, it actually makes it slightly more straightforward to purchase outside of the more popular areas – with the prices generally lower and as a result the cash contribution you have to make is correspondingly lower and potentially more affordable.

## Do lenders prefer NHS to private?

In general, the answer here is yes. The majority of banks prefer the guarantee of NHS income, and as such their lending criteria is positively weighted towards such practices.

## How do rates and terms vary?

There is huge variation between lenders, which is time consuming for an individual dentist to navigate. This is where a specialist independent broker such as FTA Finance is worth talking to as they deal with 14 high-street banks and will know which ones to approach on your behalf.

## Getting funding as an associate

1. Polish up your CV. Most people are fine on clinical experience but need to build in managerial aspects
2. Ensure your credit profile is clean. It is not a problem to have background debt (study loans, mortgages for example) as long as repayments are up to date and you operate within agreed limits

3. You will be expected to contribute something towards the purchase. The bank of mum and dad often comes into play here
4. Assets. It helps if you own a property. It's not essential though
5. Your accounts – ensure you have them, ensure you engage a specialist to prepare them, and ensure the level of turnover in those accounts is as high as possible. So, if you're thinking of buying, don't take it easy for a year.

## Are banks the only funders?

For smaller practices and start-up situations, it is sometimes possible to obtain short-term borrowing elsewhere, but it could be expensive. The most common alternative is the bank of mum and dad.

Increasingly for larger purchases we're seeing venture capital (VC) money. Do remember though, the VCs are not a charity and investing for fun – they will be expecting tangible returns from the business. Most associates thankfully would not need to go down the VC route and should be able to secure their own funding via the conventional bank options. **D**

**TO FIND OUT** more about funding options, we recommend you contact FTA Finance on 0330 088 1157 or visit [www.ftafinance.co.uk](http://www.ftafinance.co.uk).

## PRACTICE ONE – EAST ANGLIA

**Practice location** – this practice is situated within a purpose-built, two-storey building, close to the town.

**Practice type** – this is a four-surgery, fully-private practice being sold to facilitate retirement. The practice was established 30 years ago and is being sold as leasehold with a 15-year lease, rent reviews every five years and an annual rent of £12,000.

**Practice gross** – the gross fee income for this practice is in the region of £700,000, of which 62% is derived from private income and 38% from a very well-established capitation scheme. The income has been generated by the principal working four days a week, two associates working a combined 25 hours a week, and three self-employed hygienists working a combined 60-hour week. This team is supported by three full-time and five part-time nurses, a full-time receptionist, and a part-time practice manager.

**Price achieved** – a price of £595,000 was achieved, which was the asking price.

**Agent's comments** – this practice owner has built this business from a squat and his desire was to find the right dentist to take over. Luckily, we were able to provide him with several to choose from and the new owner has made the current principal feel very comfortable about his decision. So much so, the current principal is extending his period of handover, which is great news for the buyer.

## PRACTICE THREE – EAST ANGLIA BORDERS

**Practice location** – this practice is located in a two-storey building and is situated in a prominent location within a residential area with local shops in close proximity. There is on-street parking and a pay and display car park close by.

**Practice type** – this is a two-surgery fully-private practice, which has been established for over 30 years. The existing principal is selling to facilitate retirement plans. The practice is being sold as freehold.

**Practice gross** – the gross fee income for this practice is in the region of £350,000, of which 15% is generated via a capitation scheme. The income has been generated from the principal working three days a week, two part-time associates working a combined three days a week, and two hygienists working a combined three days a week. They are supported by one full-time and two part-time nurses.

**Price achieved** – a price of £549,000 was achieved, which was in excess of the asking price. The funding for this purchase was sourced by FTA Finance.

**Agent's comments** – the principal has agreed to stay on for a minimum of 12 months and because of this the buyer has agreed to not have a retention for defective work as the principal will be in situ and has agreed should this be an issue he will, at his own cost, put any defects right. This is a sensible agreement and one that has aided the goodwill relationship between the buyer and seller.

## PRACTICE TWO – GREATER LONDON

**Practice location** – this practice is located within a row of shops in a busy high street and with a prominent shop front.

**Practice type** – this is a three-surgery mixed practice, which has been trading as a limited company and therefore is a share sale. It is being sold to facilitate the retirement of the owner. It is leasehold, with a 15-year lease being created at an annual rent of £30,000 with rent reviews every five years.

**Practice gross** – the gross fee income for this practice is in the region of £500,000 per annum, of which 38% is derived from an NHS-GDS contract with a UDA rate of £24.76 and 62% of the income is derived from private fee per item. The income has been generated from the director working five days a week, three part-time associates working a combined nine days a week, and a hygienist working two days a week. The team is supported by three part-time nurses, a full-time receptionist and two part-time receptionists/nurses.

**Price achieved** – a price of £1,025,000 was achieved, which was in excess of the asking price.

**Agent's comments** – this practice has been established for 15 years and the director is selling to facilitate retirement. It is in a very busy area and has been steadily building its reputation over the years, which has been evidenced by the substantial increase in private income over the past 10 years and 2,400 private patients have been seen in the past 18 months. A great success when it started with only an NHS contract.

## PRACTICE FOUR – HERTFORDSHIRE

**Practice location** – this practice occupies the ground floor of a two-storey shop-fronted property, within a busy mix of commercial and residential properties. It is being sold with a virtual freehold.

**Practice type** – this is a one-surgery (with a decontamination room) fully NHS practice, and the existing principal is selling to enable him to facilitate retirement. The practice has been established over 40 years.

**Practice gross** – the gross fee income for this practice is in the region of £285,000, derived from NHS-GDS contract with a UDA rate of £22.54. The income has been generated from the principal working five days a week, a part-time practice manager, a part-time receptionist and one full-time and one part-time nurse.

**Price achieved** – a price of £945,000 was achieved, which was in excess of the asking price. The funding for this practice was sourced by FTA Finance.

**Agent's comments** – as a rule, a single-surgery practice can have less appeal to buyers; however, in this case there is room to extend the practice by converting a spare room into a surgery and sufficient evidence that the practice could develop a healthy income from private fees.

