

My bank manager

Paul Kendall on the impact of underwriters on dental practice finance.

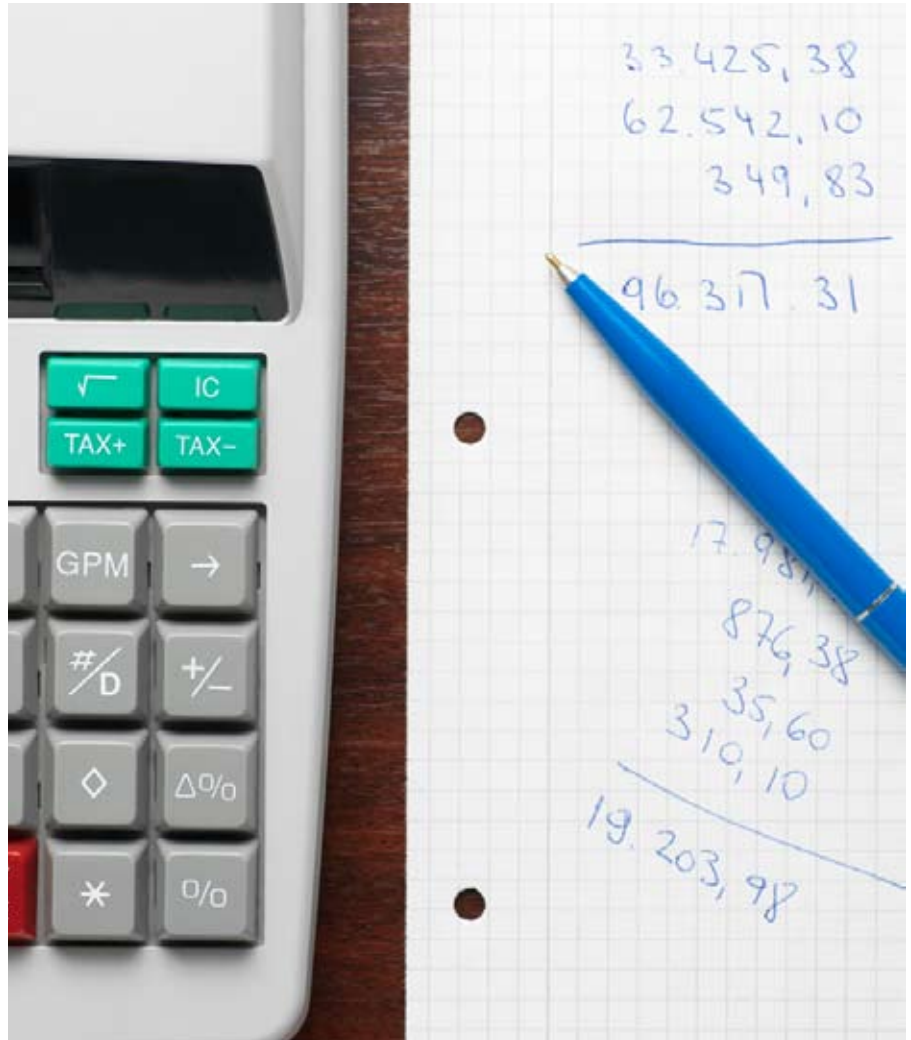
Prior to the credit crunch, the main lenders in the healthcare sector when approached for a business loan by a dentist, appeared to have settled on an industry average of offering up to £320K, unsecured at one per cent over base, with half a per cent admin fee. The £320K could in some cases represent up to 120 per cent of the purchase price of the practice to allow for additional spending by the new owners.

When applying for these loans it was not necessary to provide much detail, other than, say, the latest practice accounts and a valuation of the practice and building. The bankers were very relaxed lending to the dental profession given the high level of profits and the relatively

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low incidence of insolvency amongst dentists.

Even though dentists are still generating high levels of profits and run their finances well, the bankers' views on lending money to them have changed dramatically. This has in essence been as a result of the credit crunch, which was caused by the banks themselves being irresponsible in their lending over



● Applications for loans may be delayed without a detailed business plan and cash flow forecast.

the last few years. This change of attitude has made it more difficult for dentists to raise funds. With that said, however, dentists are far more likely to be approved for a loan than most other businesses.

Many dentists have formed long term fruitful associations with their healthcare bank managers, and those managers are still keen to assist with financing whenever they can. Their livelihoods depend upon it. Unfortunately, for all concerned

the banks' underwriters seem to be firmly in control of lending decisions at the moment and prudence is the keyword. As a result the finance packages being offered to dentists are far less attractive than they used to be.

Recent exchanges on the National Association of Specialist Dental Accountants forum indicate there are now large variations between the offers the banks are making, with the rates and the fees being ↻



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higher than those previously charged.

The rates for a strong application can vary from 1.75 per cent to 2.75 per cent above base rate, with a one per cent to 1.25 per cent administration fee, with many banks asking for the following as part of the application:

- A business plan detailing the practice profit forecast for a number of years.
- Cash flow forecasts for a number of years.
- Independent valuations, at cost up to £1,000.
- Security over the family home.
- Part of the borrowing to be on a higher fixed rate loan.
- A deposit up to 25 per cent.
- For the loan to be secured by the Government backed loan guarantee scheme (Enterprise Finance Scheme), where 75 per cent of the

loan is secured by the Government, at a cost to the borrower of two per cent of the loan balance per year.

- Up to date accounts. (A dentist with a year end of October 31, recently applied for a loan (in mid November), and was told his accounts would need to be drafted to October 31, 2009 before a decision could be made, imposing a delay of at least a month).

The rates for weaker applications can vary from three per cent to six per cent over base rate, with an additional two per cent charge if the Enterprise Finance Scheme is used. Admittedly, a lot of the above requirements are asked for from many businesses that apply for a loan, but it seems the dental profession's credit history does not account for much in this new regime.

The additional requirements

listed have resulted in transactions being delayed, and in increased costs. Surprisingly, the problems with financing appear not to have had an effect on the levels of goodwill values (as can be seen from the latest NASDA goodwill survey). This showed that average goodwill valuations as a percentage of turnover during the first three quarters of 2009 was 94 per cent, while the percentage for actual deals done was slightly lower at 85 per cent.

Given the wide range of costs and requirements, dentists considering applying for finance are strongly advised to have a Nasda member as an advisor. ■

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