Securing practice financing: understanding the process

Christine Olmstead Lopez, Vice President and Relationship Manager, BMO Harris Bank

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The process of securing a loan to purchase or open a new practice can seem daunting. But if you're prepared, it doesn't have to be.

Associates who might be ready to step out on their own are often concerned about taking out a loan given the amount of student loan debt they might be carrying. However, student loans do not preclude a dentist from obtaining practice financing, since borrowing money to acquire a practice is seen as an investment in your future.

Initial questions to consider

As part of the application process, a discussion with your lender will help both of you better understand your financing needs and goals through answers to questions such as:

- Do you have a solid credit history? Is your current financial condition favorable for acquiring a practice?
- How much of your savings do you want to invest in the practice?
- Is the practice you're looking to acquire a good fit?
- What is the patient base and the staff profile of the practice you're looking to acquire?
- What's your timeline for making an acquisition?
- What types of credit are you going to need to complete the transaction?
- Do you have near-term personal needs, such as the desire to purchase a home?

The answers to these questions will help the lender understand your full financial picture.

Determining a loan that's right for you

When you're acquiring a practice, banks typically offer a fixed-rate term loan. How long you want to keep the debt is a key factor in structuring the loan. You will want to gauge whether you are comfortable either maintaining a certain level of debt and putting your excess cash aside to build a reserve or paying down the debt as quickly as possible with your cash flow.

You may also have debt considerations beyond the term loan. It's common for a practice owner to secure a modest line of credit for day-to-day operating needs. You can draw from a line of credit (up to a predetermined maximum amount) as needed and pay it down periodically, paying interest on the amount you borrow.

Also, if you're purchasing real estate as part of the transaction, you'll need to consider the loan structure on that as well. Real estate loans amortize over a longer period of time — typically 20 years — and may require you to provide a certain amount of cash equity.

Other considerations

The earlier you include a bank in the process, the easier it will be for the lender to help secure everything you need. That includes bringing in other experts to help complete an acquisition — such as a practice valuation specialist who can make recommendations on how to improve efficiency.

Securing a loan can be a smooth process if you include your bank in the process as early as possible. Be prepared to answer key questions about the practice, your finances and your goals, which will help ensure you have a positive experience.

A commercial banker since 2006 with BMO Harris Bank, which is endorsed by WDA for practice financing, Ms. Olmstead Lopez advises mid- to large-size practices, leveraging her background in commercial credit underwriting and structuring and providing industry-specific expertise and local market insight to add value, foster long-lasting relationships and — above all — help dentists realize their vision for growth. Learn more at bmoharris.com/dentists.