



**Timothy
Giroux, DDS**

is the Owner & Broker at **Western Practice Sales** and member of the nationally recognized dental organization, **ADS Transitions**. A graduate of Creighton University School of Dentistry (1983), he and his wife, Mona Chang, DDS(LLUSD 1984) were in private practice together for 15 years in Scottsdale, AZ, before establishing their home in Northern California.

800.641.4179

visit us on the web
westernpracticesales.com

Ask the Broker

MAY 2009

Q *In today's rough economic climate, can we still get a loan to purchase a practice?*

Brandon S., DDS

Good Question! With all the bad news concerning the banking crisis, many buyers and sellers assume there is no money to borrow.

(1) In fact, the rates have never been lower! The average fixed rate on a 7-yr loan is 7.5 to 7.75%. My practice loan in 1985 was 11.5%, and that was low compared to my schoolmates that graduated 1-2 years prior!

(2) At this time, there is no shortage of available funds. Compared to a year ago, the difference now is fewer lenders which means that the loan criteria is higher.

Last year, a buyer with a credit score of 620+ would have several loan and lender options. Today, that same buyer should have a credit score of 680-700 to qualify. Previously, on "application only" loans buyers with good credit could get a \$300K loan for almost any opportunity with minimal paperwork. Now, it is more difficult to get that same loan unless a submitted business plan can support the debt.

The national average for a dental practice remains at 65% of gross receipts. California has some regions that demand much higher multiples than the national average. Currently, it is difficult to obtain a practice loan for more than 80% of collections, unless the buyer can make up the difference with cash.

Many dentists have asked if seller financing is making a comeback. With the available resources and record low rates, presently it is not necessary. Although, if rates increase above 10%, we may see more seller financing. However, many prudent sellers may consider carrying some of the debt in an effort to "share the burden" with the buyer.

Today, one of the main obstacles in practice transitions is the buyer's fear level. To calm their fears, one approach would be for sellers to participate in the debt burden. This would not change the cash flow or debt service, but does give the buyer a sense that the seller will do everything necessary to ensure the practice's successful transition.