

Side-stepping costly mistakes

Stuart Burn discusses his top five pitfalls to avoid when securing finance

The UK is suffering the effects of a global recession and with the banks piling up huge losses the ripples of this are felt across all industries; dentistry is certainly no exception.

Currently banks in general are 'risk adverse' and the heady days of securing finance with very little in the way of supporting financial information are, I'm afraid, long gone.

The premise of dentists being 'a good bet' is no longer a given and proving credit worthiness is not only important, it's vital to ensure you secure any funding requirements.

In these times it's important to know what banks are looking out for when deciding where to lend their money. There are also some expensive pitfalls to avoid so here is my list top five mistakes:

1. Poor payment history

It's imperative that current commitments are consistently paid on time. Credit reference agencies report on the last 12 months repayment history for all mortgages, loans and

credit card repayments. Blemishes on these will severely affect the ability to get credit approval. Credit cards are easy to miss as they require action monthly so set up a standing order to ensure at least something is repaid regularly.

2. High credit card debt

The same agencies will also report not only credit card repayment history, but each credit limit and the outstanding balance. If you have several credit cards and they are all close to their limits then this will be a warning sign to a lender that you are possibly 'maxed out'. Credit cards are considered 'consumption debt' by lenders and can suggest a life style is more exuberant than the recipient's earnings. This can be harsh on dentists as many pay for consumables on credit cards and these balances can get very high, very quickly. If you have core debt on credit cards it may be worth taking a loan to settle this and getting the debt on a formal repayment structure.

3. Out of date accounts

Lenders want to ensure the loans they make are safe, up to date accounts help to give a lender a great deal of comfort. Accounts that are two or three years out of date do not provide much comfort to lenders, for two reasons: firstly the current financial position may look completely different to accounts filed for 2006, and secondly, the fact that records are not kept up to date shows a sloppy approach to business.

4. Too much debt

During the course of its life a dental practice needs no insignificant amount of funding, and in general dentists owning a practice are usually highly geared (this means they have a lot of debt in relation to the size of business). With many dentists being sole traders or partnerships the business debt is rolled together with the personal debt. Add to this the ease at which credit has previously been available, and we see many dentists with high levels of borrowing and the concern is how this can be serviced.

5. Over-drawing

Lenders again are nervous of clients over stretching and when a set of accounts are produced and the principal has had drawings of say £90k with profits of say £60k, this means the business has been drained of resources as it's had to find a further £30k to fund the principal's drawings. Of course if this happens year on year sooner or later the business will suffer and possibly never recover.

These five points are not just costly when looking for finance, they are actually sound business barometers. By ensuring you keep these in order, you have the basis of a solid business that will have a very valuable trait...longevity.



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Q1: Why are lenders uncomfortable with out of date sets of accounts?

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Q2: Are sole traders' business debt and personal debt rolled into one?

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Q3: Credit reference agencies report on the last _____ how many months' history?

.....

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Email your answers to heather.podbury@fmc.co.uk or post back to Heather Podbury, Dentistry magazine, 1 Hertford House, Farm Close, Shenley, Herts, WD7 9AB. Please include a contact telephone number and email address with your answer. Deadline 15 July 2009. One seminar place per practice. No refunds against current bookings. All correct entries will be entered into a draw. The prize will be awarded to the first complete entry drawn from the hat. The winner will be notified by telephone. The judge's decision is final and no correspondence will be entered into.