Purchasing a practice requires knowledge in law, accounting, human resources, banking and business. Dentists can avoid problems in the purchasing process by assembling a team of experts, asking the right questions, fully understanding the required business considerations and choosing an appropriate lender. Here are some tips to help you finance the purchase of a practice.

**Do Your Practice Purchasing Homework**

- Prequalify for your financing to determine if you can borrow the needed money to purchase a practice.
- Negotiate lease/purchase details up front to avoid costs and confirm terms that are acceptable to you.
- Be aware of risks such as interest rate variability.
- Ensure sufficient cash flow over a seven-year period for the new practice to support your living needs, tax liability, practice debt and expenses.
- Determine if the practice purchase includes the accounts receivable and reach out to a consultant to weigh options.

**Research Financing Options**

- **Dental practice financing loan from a specialty lender:** Specialty lender with an understanding of the dental business that uses the assets of the practice for collateral.
- **Commercial loan officer from a local bank:** Banker with business lending knowledge who uses overall practice, as well as buyer’s home and bank accounts, as collateral.
- **Financing from the seller:** Seller’s financing can be used in conjunction with one of the previous options to provide further security or eliminate some risk.

**Understand Loan Considerations**

- **Interest Rates:** In most cases, interest rates are fixed and usually tied to long-term treasury bills, swap rates set by the Federal Reserve or other cost-of-funds indexes. Always ask for an amortization schedule, compare true APR, monthly payment and total out-of-pocket expenses.
- **Term:** Standard loan terms of five to 10 years are the most common. Before deciding on a term length, discuss the options with an accountant who can evaluate the accounting and tax implications.
- **Payment Types and Terms:** Take time to understand payment types and terms. Payment and prepayment penalties can impact the overall cost of your loan. Payment terms are a differentiating factor between lenders. Poor terms can cost you thousands of dollars over the course of a loan.

**Payment Types**

- **Equal Payments:** You make equal payments over the term of the loan on a standard amortization schedule.
- **Step Plans:** You make lower or no payments for an initial period of time.
- **Re-price the Loan:** To obtain lower interest rate payments and greater interest savings in first three to five years. A credit review is usually not required at the re-price period.
- **Balloon Payments:** You have a low rate for seven years, after which time the loan is refinanced at the current interest rate.

**Payment Terms**

- **Principal Reduction:** Understand how soon you can make extra payments to reduce the principal without a penalty. This can shorten the term and overall interest costs.
- **Early Payoff:** Often carries a penalty and varies greatly between lenders. Ask lenders what the pre-payment penalty is and how it’s calculated.

**Collateral**

Generally, dental practice lenders will take the practice as collateral by establishing a first lien against the assets. If financing through a traditional commercial lender, they may use the practice assets and require additional collateral such as the buyer’s home and bank accounts.

**Conclusion**

Educate yourself on the process of buying a practice and surround yourself with a team of experts. A lender that has the expertise, stability and commitment to help consider alternatives and analyze your unique situation will help ensure a suitable financing plan for your purchase.

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**Author’s Bio**

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