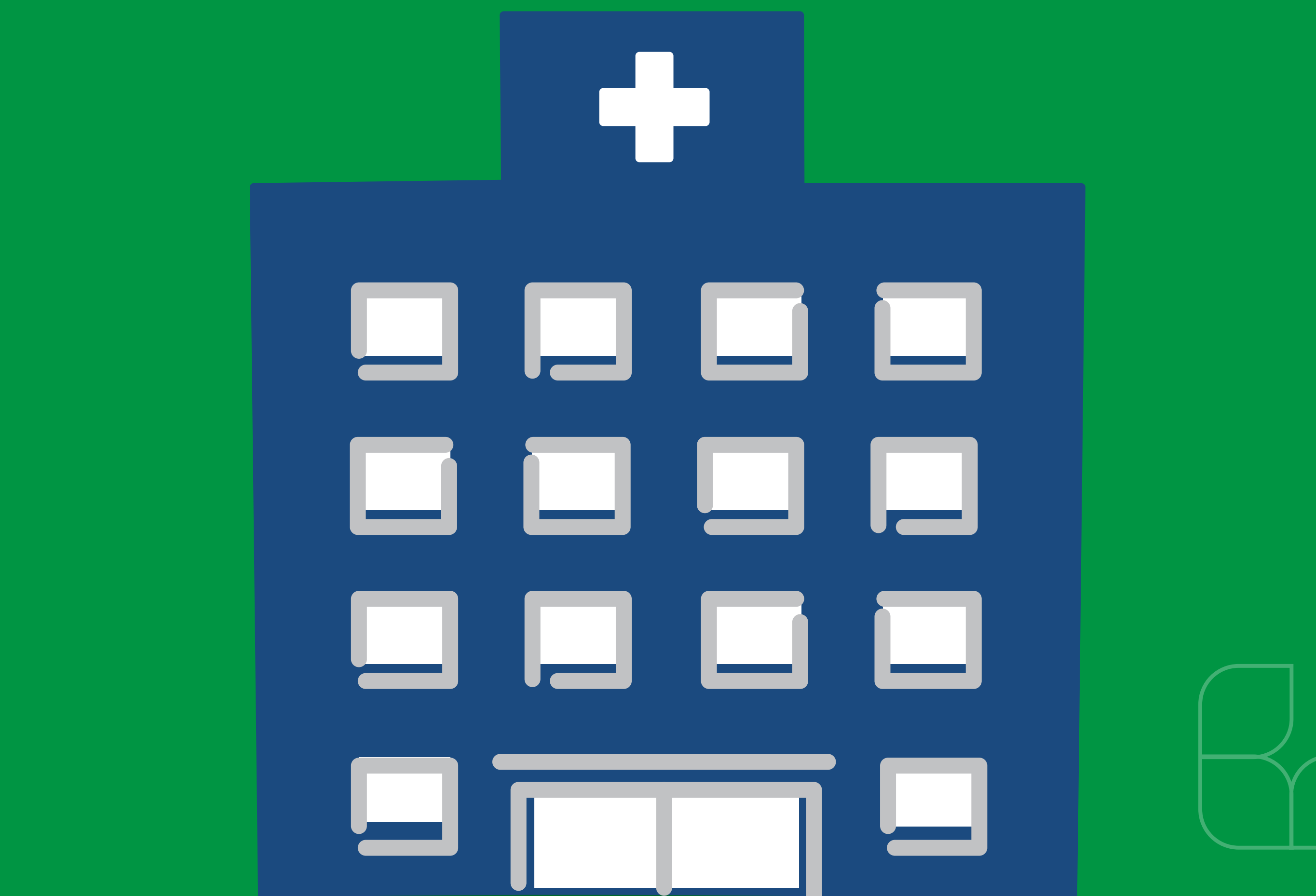
First Federal Lakewood

Guide to Healthcare Business Lending



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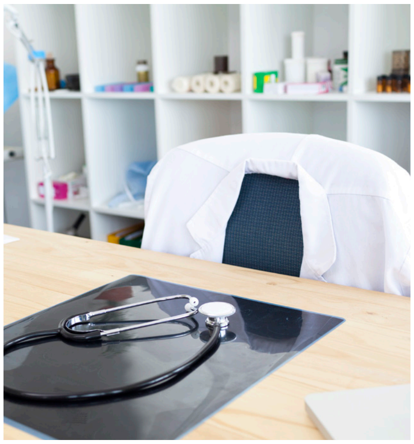

Medical practices are different from other professional service providers in that each specialty practice has its own unique needs. This includes the need for specialized equipment, operating rooms, patient exam rooms, front and back office organizational needs, lab space, and more.

Seeking a small business loan for a medical practice may seem like a daunting task, but it doesn't have to be. By answering a series of simple questions, this guide will take you through the process step-by-step.

6 Prepare with the Right Questions

Whether you're starting a new practice or acquiring an existing one, here are six questions to consider:

1. Do you have a team of trusted advisors in place?

A solid team of professional experts who can act as advisors and advocates is important to your success, no matter your industry. Your CPA, attorney, real estate broker, medical equipment representative, and banker should all play a role in your business plan. Ideally, your team should have relevant experience in your specific industry. They understand the language used in the healthcare space and know what to look for in purchase agreements. Be sure all of your advisors are in communication with each other.

A CPA can offer financial guidance, including tax planning and healthcare-specific deductions and tax advantages

An attorney can help structure purchase and ownership agreements

A real estate broker can provide a cost-benefit analysis and offer decision support around buying vs. leasing, including nuances like plumbing for providers like dentists, the space and layout of an office for bringing in the proper equipment

A medical equipment representative can offer advice on what medical equipment, devices, and products makes the most sense for a practice to invest in, including the newest technology.

A business banker can offer loan products that provide capital for space improvements,medical equipment, partner buyouts or buy-ins, and more.

2. If acquiring an existing practice, do you have a transition plan in place?

If you're already associated with the practice you're acquiring—for example, if another doctor in a practice you're a part of is retiring and you want to take it over—a transition plan may not be as important. Otherwise, a transition plan is key for a smooth acquisition. As you begin this crucial step, it helps to consider your transition plan in increments of time, such as three, six, and 12 months.

A transition plan is different from a business plan, in that it deals less with the overall business aspects of the acquisition and more with details such as staffing and patient retention. The current patients don't know you, and a referral from the current doctor, dentist, etc., is best. It's important that they introduce you to the patients—you have to get comfortable with them, and they with you. It's also crucial for you to understand the potential for new patients.

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If you're planning on acquiring an existing practice, consider the following questions to begin creating your transition plan.

Is the current doctor or doctors staying on? How about the rest of the staff?
If they are not, a non-compete agreement might make sense. That way they can't immediately open up a new, competing practice right down the street and take all your patients from you.

What do the employees compensation packages look like?
Besides wages, compensation packages come in the form of insurance, retirement plans, and other ancillary services. If you can keep their wages the same but offer attractive benefits, it can help you as the employer, from both a tax perspective and to minimize your expenses associated with the practice.

Is the equipment satisfactory, or does it need to be replaced or upgraded?
Because medical equipment is industry specific and costly, this is an important question to ask during the acquisition process. An inventory of existing equipment, including age and condition, is helpful to determine what needs replaced or kept in-place.

Do you and your staff need to learn new software?
There are usually multiple software suites specific to each practice type. If the practice you're acquiring uses different software than what you're familiar with, it may not make sense to change it, particularly if staff is staying on, which could lead to a steep learning curve for you to adapt to the new software. Additionally, changing the software could lead to complicating staff turnover.

Is the current space adequate for your current needs and planned growth?
Not just in the immediate future, but 10 years down the road.

Your transition plan should be spelled out in your purchasing agreement, so everyone is on the same page and there are no surprises. This is a binding agreement that protects both you as the buyer and the existing staff of the practice you're purchasing.

3. What are the terms and structure of the loan?

One of the benefits of working with a small community bank is that they tend to be more creative when it comes to the terms and amortization of your loan. Larger banks typically offer a 10- or 15-year straight term loan, but mutual community banks often have more flexibility. They can be more nimble when it comes to your needs, and work with you to ensure the loan is structured in a way that benefits you, and the process goes smoothly.

Working with a banker who doesn't know your industry may not be advantageous. Be sure to choose a lender with a reputation for not only helping healthcare professionals secure loans, but for servicing that loan afterwards. They should know and understand your industry, and have the connections necessary to help make your new venture a success. For instance, when acquiring a practice, a six month interest-only period, or permanent working capital, may be beneficial to provide a little cushion while getting started. They may even offer a doctor-specific lending program that allows you to secure financing with no money down. The interest rate is critical, but not as important as a bank having the flexibility to work with you.

When it comes to practice loans, there's no real collateral involved. A doctor has a patient list and that is essentially the collateral for the loan, the practice's revenue. That collateral comes in the form of a UCC filing, an official notice the bank uses to indicate they have a security interest in the borrower's assets or property.

Are you planning on expanding or purchasing additional practices in the next several years? You'll want a banker who understands that and is willing to work with you on an ongoing basis—possibly to finance one practice, watch how you grow that practice, then finance others down the road. You want to work with a banker who understands what you want to accomplish and is willing to help you meet those goals.

4. What documents should you prepare when you meet with a potential lender?

There are two document packages that you must prepare ahead of time:

A complete financial package
If you are planning on acquiring an existing practice, you should be able to provide their tax returns, profit and loss statements, and balance sheets.

Your comprehensive business plan
This may include a description of your business, an analysis of the potential competition in your area, and your employee requirements. Although this is not always a requirement for financing, it's a good rule of thumb to provide a clear plan and what you envision the practice will become under your guidance and leadership.

5. Do you need a specific "business" bank that differs from your "personal" bank?

No! In fact, having your entire banking relationship with the same bank can offer many benefits. Combining your personal and business banking products gives you a dedicated banker, plus access to specialty products like physician mortgage loans, and expert advice tailored to your industry needs.

6. Do you have a solid business plan in place?

Not all lenders require a business plan for a small business loan, but it's a good idea, as much for your own knowledge as for the bank's. One of the benefits of working with a community bank is they may provide advice as you create your business plan if you don't already have one. Plus, they can help guide you through the process.

Business plans are an important step in securing lending. If you're looking for help creating your own, Lisa Hutson from the Lorain County Small Business Development Center suggests using the Business Model Canvas. This approach is simple to execute and helps you identify nine key areas to refer back to as your business grows.

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Take the first step

Starting or acquiring a healthcare practice is an exciting event, and with an experienced lending partner, it doesn't have to be overwhelming.

Connect with us to learn how you can grow your healthcare business.

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