

Being “bankable”

How to prepare yourself financially to purchase or start a dental practice

By Stefan Green, VP, Regional Business Development Officer, Bank of America Practice Solutions¹

As one of the largest lenders to private dental practices, we routinely encounter borrowers at various stages of their financial lives. They may have just graduated and are anxious about what seems to be insurmountable student loan debt. They may be a 5-year associate who is focused on becoming an owner and is more established financially. Or they may already be a practice owner who is looking to expand and add locations to an already thriving business and personal financial status.

No matter where you may be in your financial life, take a moment to consider these tips. That way, when you do take that leap to buy or start your first (or additional) dental practice, you can be better prepared for when you meet with your banker to talk financing.

Know your production capability

As an associate, it's important to know and understand your dental production when you begin to think about whether you're ready to buy or start a practice.

When it comes to buying or starting a practice, a lender will want to hear from you and see (through reporting) what type of procedures you're performing and what your dental production has been as an associate.

If your compensation plan has a bonus tied to it, then it's a great idea to get the reports that correlate to your bonus. Annual production reports are a good idea too. It's smart to have benchmarks for yourself, so you can see if your production and procedures are growing and evolving as you get more comfortable as an associate.

If you are seeking to buy an existing practice, one of the first questions you'll be asked by a lender is “do you think you can handle the non-hygiene production being done in the practice?” Having a good storyline with key data points on your dental production will bring a great sense of comfort to the lender you are working with as opposed to just winging it.

Keep up-to-date financial books and records

Similar to an associate knowing their production abilities and capacity, as an owner you already have created a track record of how well you operate a practice. You can demonstrate that to a bank through accurate and up-to-date financial reporting.

Spending a little extra time on the books before engaging with a lender is a great idea. When you work with a lender, demonstrating a sound understanding of your practices' financial performance is always a plus.

The typical bank package will include business and personal tax returns, current year profit and loss statements, and a background on each location you own. This should include the date the practice started, dental vs hygiene production, number of equipped and plumbed operatories, staff, etc.

Invest the time to ensure your financial systems are up to date, work with your accountant to complete a financial review, and make sure your taxes are current. These are all important when you're considering expansion and financing needs.

Establish and maintain a rainy day fund

Whether you are an associate or an owner, banks like to see that you have some personal liquidity to weather any financial headwinds you may experience.

For example, well-capitalized owners and associates have historically demonstrated they have the ability to “weather the storm” of slower months, illness, and even pandemics, without having to dip into credit cards or lines of credit. They were able to come out the other end with comparatively less or little debt. Establishing personal savings helps demonstrate to a lender that you are a sound financial risk with a back-stop of savings to help with a financial challenge—personal or economic.

Pay down (the right) debt

Many associates come out of dental school with several hundred thousand dollars of student loan debt. It is not uncommon for associates to focus on paying that debt down faster with any extra income they have. After all, it's a large amount of debt, and let's be honest, it's scary!

We would caution you to think about debt a little differently and focus on several other areas before tackling those student loans. The same goes for current owners; tackling debt the right way makes you a better risk to lenders and more “bankable.”

1. Pay off your credit card debt

If you have credit card debt, pay it down first and as quickly as possible. This debt usually carries the highest interest rates and has the greatest effect on your credit score.

2. Establish that rainy day fund

As discussed earlier, don't pay down your debt without first establishing your rainy day fund. Or do both at the same time.

3. Tackle highest-rate debt first

If you have done the above, then it may make sense to pay down your student loans. A good idea would be to tackle the loans with the highest rates first, since they're costing you the most money.

Know your credit score

In today's world, access to your FICO credit score is widely available to you, but do you know what it means? In general, a credit score above 700 is considered to be a "good" score, while scores in the upper 700's-800+ are considered to be "excellent".

If your score dips lower than 700, it could be due to slow payment of debt obligations, an increase in debt (think credit card balances), or perhaps you have applied for credit several times in a short span of time.

Monitoring your score, paying your obligations on time, managing your revolving debt, and only applying for credit when you have a significant need are great ways to ensure the score you have is "good" or better.

The bottom line

Spend some time to prepare yourself financially, so when you do sit down to discuss financing your ownership or expansion opportunity, you'll be yourself more bankable and in turn, have more choices in the lending you can receive.

Let's talk



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