

## Financing Your Start-Up: A Two-Part Guide

By Mark Crootof DVM

*This is the first of a two-part series on obtaining a loan for a start-up practice. The first article reviews the current state of the lending industry, weighs the benefits of approaching local banks vs. veterinary lenders, and touches on the benefits of working with a consultant. The second article answers commonly asked questions, such as how important is it to decrease student debts, what are routine loan amounts offered by different lending institutions, and what do lenders look for in a loan application.*

It wasn't an unusual situation. After years of working for others, two married veterinarians were ready to own a practice. They were lucky enough to have found an amazing deal with a very short window of opportunity. Unfortunately, their credit score was below the optimum, due to some past mistakes: they had too many credit cards, had missed their monthly payments now and then, and were maintaining a high debt to income ratio. It reflected poor past decisions, but could easily be corrected with careful future fiscal monitoring.

As their consultant, I approached a local bank for a loan and was told that they would need a minimum of four weeks to consider to the application. I then went to a veterinary lender, who could appreciate the potential of the deal and the necessity for speed. That, combined with the fact that veterinary practices are presently considered one of the safest ventures possible, resulted in our loan being approved within a few days.

Twenty years ago, money was the only obstacle between me and my dream of ownership, and it wasn't nearly as easy to acquire. I had studied hard in veterinary school and had worked for three different veterinary facilities, carefully evaluating their strengths and weaknesses. I had taken courses on running a small business, discussed common pitfalls with the Small Business Administration and SCORE ( a volunteer group of retired executives), and attended every practice management seminar available. I considered myself the perfect candidate for a loan, so you can imagine my shock when the local banks politely refused to have anything to do with me. Apparently, my lack of \$100,000 in ready cash or equity was a sticking point. Fortunately, I had family members who were willing to use their extra funds to assist me in financing my business, but it was significantly more stressful than working with a lender. Because of my limited resources, my options were likewise restricted.

Much has changed in the past two decades, almost entirely for the better. While today's veterinarians do have to shoulder a larger student debt load, they also have a host of new resources: an increased demand for services, an established reputation for being good investments, occupation-specific lenders, and access to scores of knowledgeable consultants.

Pets are now more likely to be considered “companions” or “part of the family,” and so the amount of money owners are willing to spend on preventative or curative medicine is skyrocketing. As the need for veterinary services rises, the chance that a new veterinary practice will be successful grows accordingly. This makes them ideal investments: “The veterinary industry has shown the lowest default rate and is one of the most, if not the most, attractive industries in which to lend [...] With today’s population focused more on the health and well being of their animals, we have seen practice revenues on the rise, which demand expansion or new facilities to be erected in order to attract the clientele,” states Vince Dailey, the president of Vine Street Financial, a division of BB&T.

Veterinarians have also established a reputation as desirable individual candidates for loans. Keith Merklin, a lending officer for Matsco SBA Finance, writes, “Veterinarians have a proven history of being smart, dedicated, and professional business people. They have a great track record with us in paying the monthly debt on time and rarely defaulting.” Dailey agrees: “Veterinarians have been proven to be hardworking career professionals determined to make their practices succeed.” One of the principle partners, Carl Lacher, of veterinary CPA firm Lacher McDonald mentioned that in the 29 years he had been at the firm, they had never had a “bad” loan with a veterinary facility or practice.

Because veterinarians have chosen a career of providing care, we are perceived as having good character, a plus in the investment world. Merklin enjoys “working with veterinarians more than any other business person due to their dedication to animals.”

Tara Kimmins, the Business Development Manager for Group Financial Services, notes that “the continued growth of the animal health market [...] has created a greater demand for flexible and creative lending solutions.” Due to the growth of the profession and our low level of loan risk, many banks have created lending subsidiaries designed to work solely with veterinarians. Dailey describes “the current market conditions for veterinary lending industry as competitive and robust.” In short, veterinary lenders are beginning to compete for the opportunity to work with veterinarians!

All loan options should be considered, but I have found that veterinary lenders tend to be more flexible than local banks: the latter require higher levels of collateral and are less willing to lend large sums to new would-be owners.

Because they specialize in the field, veterinary lenders also often have a quicker and more streamlined process, so a would-be owner can sometimes be approved within days or even hours. Kimmins boasts that “the majority of our veterinary transactions can be approved based on information we collect in a five-minute telephone conversation.”

Additionally, today’s veterinarians have access to an astounding amount of knowledge and experience through the Association of Veterinary Practice Management Consultants

and Advisors ([www.avpmca.org](http://www.avpmca.org)). A half an hour of sifting through the membership directory on their website will turn up dozens of consultants who are familiar with the process and can provide advice and assistance from start to finish. Timely advice or good lending connections can save the potential owner time, money, and headache.

If you are considering practice ownership, there's never been a better time to apply for the loan that will make your dream a reality.

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“Student loans have absolutely no bearing [on an applicant’s ability to be approved for a loan]; it’s OK to have student loan debt.” Almost every lender will agree with Marc Cornella, the President of U.S. Medical Funding, Inc.: student loans have no effect on borrowing for practice acquisitions or financing, no matter how much money is owed. The only way a student loan might affect an application is if they are used to demonstrate good credit history. So there’s no need to worry about paying off student debt before applying for loans; in fact, it’s actually often preferable to go with the slowest repayment option, as the interest rate on student loans are often the lowest ones on the market.

Instead, it’s more productive to concentrate on improving the areas that will matter. These include building a strong credit history (scores of 650 or better are preferable), creating a sound business plan, having at least two years of experience, demonstrating evidence of fiscal responsibility, and ideally possessing a substantial amount of net worth, personal real estate, or veterinary equipment that could be used in the potential practice.

Although having high credit card debt, high mortgage debt, or high installment debt isn’t bad in and of itself, it is best to avoid having all three at the same time, which is known as being highly leveraged. As Tara Kimmins, the Business Manager for Group Financial Services, notes, “the most important thing for a veterinarian to do [to secure a loan] is to keep up with their debt.” Of course, bankruptcies and tax liens or judgments are all black marks, but they don’t preclude the possibility of being approved. When buying a practice, you can garner a huge advantage if you can show that you’ve worked there for a year or more, since lenders view that as less of a risk than a total transition of ownership.

The first step to improving your credit score is to find out what it is. Free reports are available once a year through [www.annualcreditreport.com](http://www.annualcreditreport.com).

Most veterinarians dream of 100% financing, and most veterinary lenders are prepared to offer it based on the strengths and type of the application. Kimmins explains that projects that commonly receive full funding are “new facility start-ups, expansions, and equipment acquisition.” Other needs, such as requests for money for working capital, supplies, computers and software, debt restructuring, real estate mortgages, practice

acquisitions, and construction, are less likely to receive 100% financing. Merklin emphasizes that his company “will always look to lend 100% on a practice acquisition loan if the deal makes sense, but sometimes we cannot lend 100% when the sale price appears too high or in excess of 100% of revenues.” If the loan application includes commercial real estate, it’s rare to find a lender willing to offer 100% financing; instead, expect to put 10-15% down.

You are more likely to be approved for a loan if you are realistic in your expectations. It also pays to develop a thorough business plan, since start-up loans vary widely. Kimmins’ company offers financing products that range from two thousand to two million dollars, and their average transaction in the veterinary market in 2005 was \$60,000.00. Similarly, Keith Merklin, a Lending Officer with Matsco SPA Finance, states that his company will usually lend up to one million on a conventional practice acquisition note and up to two million for SBA practice acquisition loans.

All companies have a safety limit, some loan amount for which they are able to quickly qualify borrowers, which usually ranges from five to seven hundred thousand dollars. As a general rule of thumb, you can assume that seven-digit loan applications will require more time and collateral to secure. Cornella summarizes: “[For any] significant financing request, when practicing experience is limited and practice equity is not available, cash-down requirements should be expected.”

There may be upfront fees for a loan application, which range from \$1,500 to \$5,000 depending on the amount of the loan. Some companies will waive this fee, and many times it will be returned in full if the lender cannot fund the project.

According to Vince Dailey, the president of Vine Street Financial, common information needed with a loan request would include a business plan (if it’s for a start-up), a project cost breakdown on new construction or renovation, a description of how the loan proceeds will be spent or used, resumes for principals, current financial statements or statements for the past three years if the business is already in operation, personal tax returns on principals for the past three years, copies of promissory notes if refinancing existing debt, copy of land or facility lease if applicable, information on other businesses that applicant controls, and the purchase contract or closing statement if applicable.

If you’re just starting out, I would recommend considering a lease-hold practice. The total for working capital, expenses for tenant improvements, equipments, fees (for consultants, CPAs, attorneys, the Small Business Association, and others) can easily be kept under \$500,000.00, making owning a business a possibility for the vast majority of veterinarians.

On the off chance that you do get turned down by a lender, it’s not the end of the world. Different companies have different standards regarding who qualifies for a loan; some

focus on credit history, while others care about the details of the deal like the net to gross ratio. Chances are that if you have a reasonable business plan, there is a lender somewhere out there who would be happy to give you the money to realize it.

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