A COMPREHENSIVE ANALYSIS OF THE PURCHASE AND SALE OF A VETERINARY PRACTICE

Pacific Coast Veterinary Conference
June 19th, 2015
Sponsored by Gatto McFerson, Certified Public Accountants, LLP
MEET YOUR PRESENTERS

Lou Gatto, CPA

- Founder of Gatto McFerson, CPAs, a veterinary-focused financial and consulting firm located in Santa Monica, California. Mr. Gatto has mentored and financially advised veterinarians and practice owners for over 36 years. He is a founder and two-time past president of VetPartners. He also serves on the Economic Issues Committee of the California Veterinary Medical Association. Mr. Gatto is a frequent speaker at veterinary schools and conferences.

Phil Homsey, ESQ

- Mr. Homsey is an attorney serving the veterinary industry for over 30 years, providing legal advice and business strategies to help maximize success. His experience includes negotiating veterinary practice transactions, corporate acquisitions, associate buy-ins, real estate leases and purchases, and business litigation. Mr. Homsey is a graduate of the prestigious McGeorge School of Law, and practices in Los Angeles, California.
MEET YOUR PRESENTERS

Tom McFerson, CPA

- Mr. McFerson is the managing partner at Gatto McFerson, CPAs, a veterinary-focused financial and consulting firm located in Santa Monica, California. He is accredited in business valuations by the American Institute of Certified Public Accountants, and is a former director and active member of VetPartners. Mr. McFerson is a speaker at local and national conferences, a frequent author for Veterinary Economics and other trade publications, and oversees the publication of the monthly California Veterinary Economic Report.

Bill Murray

- Mr. Murray is a senior vice president with Bank of America Practice Solutions, the bank’s healthcare lending division. Over his 17-year career with the bank, he has held leadership roles in sales, finance, credit, and most recently was the national program manager for the bank’s animal health team. Mr. Murray’s experience as one of the largest lenders to the veterinary private practice industry has provided him the opportunity to have key insights into the state of veterinary clinic financing from a national perspective.
PRACTICE TRANSITIONS FROM A LEGAL PERSPECTIVE
LEGAL

Two Basic Types of Practice Purchases

- **Asset Sale-**
  - Used for 100% Purchase

- **Stock Sale-**
  - Used for Associate Buy In of a percentage of ownership
Asset Purchase Agreements

- Purchase Price
- Fair Market Value
- Allocation of Purchase Price
- Terms of Payment of Purchase Price
- Description of Assets Purchased
- Covenant not to Compete
LEGAL

Terms of Payment of Purchase Price

- Financing
- Outside Lender
- SBA Requirements
  - $500,000 Goodwill = Seller Carry-back
  - 1 Year Limit Seller’s Employment
  - Standby Creditors Agreement
  - Prepayment Penalties
- Covenant Not to Compete
- Lease Terms- Rent, Length of Lease, Subordination
- Seller Financing
- Collateral
LEGAL

Description of Assets Purchased

- **Assets Included in Sale**
  - Tangible
  - Intangible
    - Goodwill, Social Media Accounts, IP addresses, Domain Names,

- **General Intangibles**
  - Accreditations
  - Contractual Relationships
    - Accounts Receivable
    - Mobile Surgeons
    - Rescues
    - Behavior Experts
    - Groomers
    - Pet Stores
    - Boarding Facilities
    - Bloggers
Description of Assets Excluded

- Automobiles
- Artwork
- Personal Library
- Accounts Receivable
- Cash on Hand
LEGAL

Covenant not to Compete

- Allocation of Purchase Price
- Time and Territory
- Injunction vs Damages
- Carve Outs
- Default Provisions tied to Seller Note and or Lease
LEGAL

Debts and Obligations

- Lab Contracts/Quota Contracts
- Bulk Sale Notices (Deficit Escrows)
- Vendor Accounts
- Tax Accounts EDD, FTB, SBOE
- Assumed Liabilities
- Proration of Pre paid Liabilities
- Post-Closing Accounting and Settling Up
LEGAL

Due Diligence

- Contingencies
- Financial
- Equipment
- Facility
- Legal
- VMB
- Insurance
LEGAL

Warranties, Representations and Indemnities
- Best of Knowledge
- Duty to Investigate
- Known Defects
- Duty to Disclose
- Limit of Liability
- Sunset Provisions
LEGAL

Real Estate

- Purchase
- Lease NNN- CAM
- Lease with Option to Purchase
- Option/Put
LEGAL

Stock Purchase Agreements

- Associate Buy In
- Legal Documents
  - Stock Purchase Agreement
  - Shareholders Agreement
  - Employment Agreements
Stock Purchase Agreements

- Options for Additional Purchase
- Time table for full or equal ownership
- Financing- Seller vs Lender
  - Down Payment
  - Interest Rates
  - Amortization Table, Balloon Payments
- Assets and Debts
  - Corporate Balance Sheet
  - Cash on Hand
    - Seller’s Loan to Corporation
Shareholders Agreement

- Capital
- Management
- Profits/Losses and Distributions
Buy Sell Provisions

- Formulas for FMV
- Come Along
- Drag Along
- Ownership/Employment Tied Together
Dispute Resolution

- Provisional Director
- Termination Provisions
  - Special Arbitration
Employment Agreement

- All Owners
- Compensation
- Benefits
- Duties
- Termination for Cause
Conclusion

- Summary
- Words of Wisdom
PROFITABILITY AND PRACTICE VALUE
WHY DO YOU CARE ABOUT PROFIT?

- Practice value is almost totally dependent on profitability.
- Higher profit margin =
  - More cash to pay off purchase loan
  - Better value when you sell
- Financial statements and tax returns, even when properly prepared, do not give you an estimate of true practice profits.
WHY DO YOU CARE?

- Many practices have low profitability
- Many owners don’t know this
- Condition is correctible
Maximizing Profit = Maximizing Value
## True Operating Profit

<table>
<thead>
<tr>
<th>Estimated Profitability</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 18%</td>
<td>Superior value</td>
</tr>
<tr>
<td>16-18%</td>
<td>Above average value</td>
</tr>
<tr>
<td>13-16%</td>
<td>Average Profitability</td>
</tr>
<tr>
<td>8-13%</td>
<td>Below average</td>
</tr>
<tr>
<td>&lt; 8%</td>
<td>Poor</td>
</tr>
</tbody>
</table>
Determining Practice Profitability

- In small businesses, tax returns and financial statements (while properly prepared) still do not show true practice profitability.
- Cash taken out of the practice does not equal profits.
- Figures shown as taxable income or net income may be dramatically different from real operating profit.
- Separate calculation must be done.
**TAXABLE INCOME v. TRUE INCOME**

- **Taxable Income**
  - Trying to keep low as possible
  - Includes all expenses, including quasi-business
  - May include excessive depreciation/179

- **True Income**
  - Good to know for financing purposes
  - Valuation purposes
  - Make adjustments for perks, other non-cash items
  - Good in comparing to rest of industry
## Taxable Income v True Income

<table>
<thead>
<tr>
<th></th>
<th>Taxable Income</th>
<th>True Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Prof. Services</td>
<td>210,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Payroll</td>
<td>460,000</td>
<td>460,000</td>
</tr>
<tr>
<td>Occupancy</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Loan Interest Expense</td>
<td>15,000</td>
<td>-0-</td>
</tr>
<tr>
<td>Owner Perks</td>
<td>35,000</td>
<td>-0-</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>6,000</td>
<td>24,000</td>
</tr>
<tr>
<td>179 Equipment Expense</td>
<td>30,000</td>
<td>-0-</td>
</tr>
<tr>
<td><strong>Net</strong></td>
<td><strong>$ 74,000</strong></td>
<td><strong>$ 136,000</strong></td>
</tr>
</tbody>
</table>
DETERMINING A PRACTICE’S VALUE
DETERMINING VALUE RULES OF THUMB

Heard of?

 Advantages
  • Cheap
  • Easy

 Disadvantages
  • Completely inaccurate except by sheer dumb luck
  • Don’t take into account varying levels of profitability in different practices
  • Don’t take into account individual variables such as growth or decline of practice, demographics, location, competition, etc
RULES OF THUMB AND PROFITS

- **Practice A**
  - $1,000,000 gross
  - $100,000 in profits

- **Practice B**
  - $1,000,000 gross
  - $200,000 in profits

Which is worth more?
RULES OF THUMB AND RISK FACTORS

Practice A
- $1,000,000 gross
- $200,000 in profits
- Growing neighborhood filled with $300,000 homes and lots of children

Practice B
- $1,000,000 gross
- $200,000 in profits
- Built-out neighborhood with mostly senior citizens and $100,000 homes

Which is worth more?
VARIOUS METHODS FOR VALUING PRACTICES

- Technical aspects different but in all:
  - Tangible assets are only important if they produce profits
  - Profitability is the basis for the value of the goodwill
  - Goodwill is the biggest asset in successful practices
  - Current profits are only important if they are expected to continue into the future (risk factors)
  - Revenue is not a predictor of practice value
PROFITS AND PROFIT MARGIN

- Profit should represent the amount left over after all normal and necessary expenses of the practice are paid at fair market rates.
- Profit margin calculated as practice profits divided by gross revenue.
- Usually expressed as a percentage of gross revenue for comparison with other practices.
COMMON ITEMS THAT MUST BE ADJUSTED

- Owner payments
- Perks
- Services provided to practice by family members
- Facility and equipment rental
- Interest on debt
- Depreciation/amortization (non-cash expenses)
- Non-recurring interest/expense
FMV VERSUS PRICE

- NOT the same
- Valuation is an art-professional differences in opinion
- Sellers may hold out for more and get it due to potential
- Seller may sell for less because
  - Can’t find a buyer at a higher price
  - Lenders pulling out or tightening terms because of potential recession
  - Distress sale due to health/family issues particularly death (value can plunge rapidly without owner there to care for practice)
WHAT IS BUYER BUYING?
Tangible Assets

- Furniture, equipment, computers
- Practice vehicles - No
- Inventory
- Supplies
- Land and buildings
- Cash - No
- Investments - No
- Software licenses
- Accounts receivable
INTANGIBLE ASSETS

- Goodwill/blue sky
  - Location
  - Going concern
  - Practice name and reputation
  - Client records and loyalty
  - Management skills & experience
  - Personnel
  - Industry outlook

- Expectation of continued patronage and income stream following change in ownership
BUT ASSETS DON’T MATTER UNLESS…

- They produce $ in the future
- Buyer is buying a FUTURE income stream
- Current assets and current earnings figures are only useful if they are a reasonable projection of the FUTURE
If Buyer is Buying an Income Stream, What Drives Practice Value?

- Cash flow
- Practice profitability
- Practice risk factors
TOTAL VALUE =

Tangible (physical) assets (~20%) +
Capitalized excess earnings (Goodwill) (~80%)
WHAT HAPPENS TO LIABILITIES?

- Accounts payable
- Withheld and accrued payroll taxes
- Accrued retirement plan contributions
- Loan payments
VALUATION APPROACHES

- Rules of thumb
- Market
- Asset (aka cost method)
- Income
MARKET APPROACH

- Value based on comparison of your business with recently transacted sale of similar property
- See commonly in home appraisals
ADVANTAGES AND DISADVANTAGES

- Intuitively, the most “correct” method
- Difficult to apply
- Lack of data
- Lack of similarity in businesses
ASSET APPROACH

- Fair market value of individual assets and liabilities estimated and totaled
- Could be cost or replacement value
- Excess earnings method (most common method used in veterinary medicine) is a hybrid of the asset and income methods
ADVANTAGES AND DISADVANTAGES

- May give too much weight to tangible assets that don’t generate income
- May not recognize full income generating power of business
- Can be time consuming to get accurate asset values
- Difficult to determine reasonable estimate of future cash flow
- Capitalization and discount rates can be difficult to accurately determine
EXCESS EARNINGS METHOD

- Aka multiples of earnings or cash flows or Veterinary Economics method
- Most common method used in veterinary medicine
- Determines value of net tangible assets and adds to value of intangible (goodwill) assets
EXCESS EARNINGS METHOD

- Tangible assets valued by determining fair market value (FMV)
- Intangible asset value determined by capitalizing the cash flow generated by the assets of the business using a fair and reasonable return rate over a long term basis
- Capitalization rate is a measure of the risk and expected return on the investment
- Total value determined by adding the two together
INCOME APPROACH

- Value based on the business’s income producing capacity
- Value determined by capitalizing the cash flow generated by the assets of the business using a fair and reasonable return rate over a long term basis
- Capitalization rate is a measure of the risk and expected return on the investment
- Common methods:
  - Single period capitalization method
  - Multi period discount method
ADVANTAGES AND DISADVANTAGES

- Value based on earnings
- Valuation can be performed more quickly
- Difficult to determine reasonable estimate of future cash flow
- Capitalization and discount rates can be difficult to accurately determine
- Care must be taken to insure practice under consideration has the usual and expected equipment customarily found in veterinary practices
INCOME APPROACHES

- Total asset value determined by capitalizing the cash flow generated by the assets of the business using a fair and reasonable return rate over a long term basis.
- Capitalization rate is a measure of the risk and expected return on the investment.
- Part of value allocated to tangible assets by determination of their value doesn’t impact TOTAL value determination of practice.
The process of converting the expected practice earnings to a fair market value

Expected Earnings  ?%  Fair Market Value of Practice & Goodwill
CAPITALIZATION RATE IS BASED ON RISK

- What risk?
  - The risk the practice will not be able to continue generating the cash flow it currently does
  - Higher risk practice has higher rate and lower risk practice has lower rate

- Capitalization multiple (i.e. 5.0) is the inverse of the rate (1/20%)
CAPITALIZATION RATE IS BASED ON RISK

- The level of return investors require before they will make the investment
- General theory is the same for different valuation methods, but multiple or rate representative of “best” practices will be different depending on the method
PROBLEMS SEEN WITH CAPITALIZATION RATES

- Some appraisers use a constant cap rate (traditionally 5 in excess earnings valuations)
  - Why is this a problem?
- All practices with the same earnings are not equally desirable
- The desirability and risk associated with individual practices should be reflected in cap rate
REPORTS CONTAIN LITTLE OR NO DISCUSSION OF WHY A PARTICULAR CAP RATE IS APPROPRIATE INCLUDING ANALYSIS OF RISK FACTORS

**Why is this a problem?**
EFFECT OF RISK FACTORS

- Strongly influence cash flow
- Predict whether current profit levels will continue to be achievable in the future
- May or may not have impact on capitalization rate in valuation
VET PARTNERS RECOMMENDED SPECIFIC PRACTICE RISK FACTORS

- Location
- Facility
- Demographics
- Veterinary competitive environment
- Practice stability
- Revenue/earnings growth
VET PARTNERS RECOMMENDED SPECIFIC PRACTICE RISK FACTORS

- Mix of services
- Effective practice transition
- Quality of staff
- Effectiveness of management systems
- Lease terms
- Non-compete covenants
- Marketability/desirability
INCREASING VALUE
IMPROVING PRACTICE VALUE

\[
\text{Earnings/Cash Flow} \div \text{Cap Rate} = \text{Value of Practice}
\]
EXCESS EARNINGS

- The owner’s return on investment (ROI)
- Not merely a good job with a comfortable living
  - More than a salary
  - Six figure income doesn’t mean your practice has any profits
    - $600,000 × 20% = $120,000
    - Management compensation
How To Improve Excess Earnings

- Revenue generating ability
- Efficiency in managing expenses

\[ \text{Revenue} + \text{Efficiency in managing expenses} - \text{Expenses} = \text{Earnings/Cash Flow} \]
TAX ISSUES

- Whether buying or selling, every decision can have major consequences
- Current tax law complicated, in a state of flux
- Stock Sale versus Asset Sale
- Allocation of Purchase Price - Tug of War
TAX ISSUES – SELLER

- Drugs and Supplies – Ordinary Income Rates
- Accounts Receivable – Ordinary Income Rates
- Equipment/Furnishings/Fixtures – Ordinary Income Rates
- Covenant not to Compete – Ordinary Income Rates
- Goodwill – Capital Gain Rates
- Patient Records – Capital Gain Rates
TAX ISSUES – BUYER

- Drugs and Supplies – Ordinary Expense
- Accounts Receivable – Non-taxable as you collect
- Equipment/Furnishings/Fixtures – 179 Expense, or depreciate over 5 or 7 years
- Covenant not to Compete – Amortize over 15 years
- Goodwill – Amortize over 15 years
- Patient Records – Amortize over 15 years
TAX ISSUES – SELLER

- Drugs and Supplies – 45% (Fed and Cal)
- Accounts Receivable – 45% (Fed and Cal)
- Equipment/Furnishings/Fixtures – 45% (Fed and Cal)
- Covenant not to Compete – 45% (Fed and Cal)
- Goodwill – 30% (Fed and Cal)
- Patient Records – 30% (Fed and Cal)
# Tax Issues – Seller

**Example 1**

<table>
<thead>
<tr>
<th>Item</th>
<th>Price</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drugs and Supplies</td>
<td>$25,000</td>
<td>$11,250</td>
</tr>
<tr>
<td>Equipment/F&amp;F</td>
<td>$50,000</td>
<td>$22,500</td>
</tr>
<tr>
<td>CNTC</td>
<td>$100,000</td>
<td>$45,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>$700,000</td>
<td>$210,000</td>
</tr>
<tr>
<td>Patient Records</td>
<td>$125,000</td>
<td>$37,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,000,000</strong></td>
<td><strong>$326,250</strong></td>
</tr>
</tbody>
</table>

Tax Percentage: 32.6%
## Tax Issues – Seller

### Example 2

<table>
<thead>
<tr>
<th>Item</th>
<th>Price</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drugs and Supplies</td>
<td>$75,000</td>
<td>$33,750</td>
</tr>
<tr>
<td>Equipment/F&amp;F</td>
<td>$150,000</td>
<td>$67,500</td>
</tr>
<tr>
<td>CNTC</td>
<td>$250,000</td>
<td>$112,500</td>
</tr>
<tr>
<td>Goodwill</td>
<td>$325,000</td>
<td>$97,500</td>
</tr>
<tr>
<td>Patient Records</td>
<td>$200,000</td>
<td>$60,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,000,000</strong></td>
<td><strong>$371,250</strong></td>
</tr>
</tbody>
</table>

Tax Percentage: 37.1%
TAX ISSUES – SELLER

Taxes Paid – Example 1   $ 326,250
Taxes Paid – Example 2   $ 371,250
Difference in Tax       $  45,000
**Tax Issues – Buyer**

<table>
<thead>
<tr>
<th></th>
<th>Ex # 1</th>
<th>Ex # 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense - Drugs and Supplies</td>
<td>$ 25,000</td>
<td>$ 75,000</td>
</tr>
<tr>
<td>Depreciation - Equipment/F&amp;F</td>
<td>$ 30,000</td>
<td>$ 50,000</td>
</tr>
<tr>
<td>Amortization - CNTC</td>
<td>$ 6,667</td>
<td>$ 16,667</td>
</tr>
<tr>
<td>Amortization - Goodwill</td>
<td>$ 46,667</td>
<td>$ 21,667</td>
</tr>
<tr>
<td>Amortization - Records</td>
<td>$ 8,333</td>
<td>$ 13,333</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 116,667</strong></td>
<td><strong>$ 176,667</strong></td>
</tr>
<tr>
<td>Difference Deductions/Tax</td>
<td><strong>$60,000/$24,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
DUE DILIGENCE
Buyer should expect their earnings from the practice (salary and profits) to cover:

- Repayment of debt incurred to purchase practice
- Increased income taxes related to practice purchase
- “Decent” living
FEASIBILITY ANALYSIS

- Should be a part of the valuation process
- If so, buyer’s advisor should review for reasonableness and applicability to buyer’s situation
- If not, buyer’s advisor should prepare—this is the single most useful analysis the buyer’s advisor can do
- Advantages of this method
  - Uses sellers #s
  - Avoids complexities of valuation methodology
Copy of slides by email?

tom@gattomcferson.com
Questions?
FINANCING YOUR PRACTICE PURCHASE
What are lenders looking for when considering financing?

- Credit worthiness
- Capital (liquidity)
- Capacity (cash flow)
- Collateral (business)
- Character (credit)
THE 3 NATIONAL US CREDIT BUREAUS

EQUIFAX

TransUnion

Experian
UNDERSTANDING YOUR CREDIT SCORES

- Your Credit Score is a grade on your credit report.
- Scores Range from 300 to 850+
- Average FICO Score is Approx 693
- Practice Solutions target FICO range starting between 660-680
- Auto Industry Tiered Based Pricing
Credit Scoring

How are Credit Scores Calculated?

- Payment History: 31%
- Credit Useage: 30%
- Inquiries: 15%
- Account Types: 14%
- Age of Accounts: 10%

* Source: Freecreditscore.com
GET PRE-QUALIFIED

- Should be a “free look” and not require borrower to commit to or pay any fees to a bank.
- Allows borrower to work on improving aspects of application which in turn increase likelihood of approval. THIS IS NOT A FINAL APPROVAL.
- Credit: Score, Revolving Debt and Monthly Obligation
- Collateral: Savings vs. Income and Time Licensed
- Production: Evidence Supporting Ability to Produce
APPLY FOR FINANCING

- Specialty Lenders vs. Traditional and SBA Lenders
- Buyer provides application, tax returns and production reports (if necessary and available).

If you’re Pre-Qualified, this is already done!

- Practice Broker/Seller provides practice profile, tax returns and current year profit and loss statement.
- Some lenders require a telephone interview with an underwriter to determine fit, knowledge of practice, character, etc.
A Cash Flow Analysis measures the profit of a business and tells the true story of a company’s financial health.

**Practice Cash Flow**
- Practice Profit
- Owner’s Compensation
- Depreciation
- Auto Expense

**Buyer’s Debts/Living Expenses**
- Practice Loan
- Home Mortgage/Rent
- Student Loans
- Auto
- Credit Card Debt
- Living Expenses
# Cash Flow

## Practice Cash Flow

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice Profit</td>
<td>233,838</td>
</tr>
<tr>
<td>Depreciation</td>
<td>19,766</td>
</tr>
<tr>
<td>Auto Expense</td>
<td>7,767</td>
</tr>
<tr>
<td>Interest</td>
<td>9,344</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>270,715</strong></td>
</tr>
</tbody>
</table>

## Buyer’s Debts/Living Expenses

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice Loan</td>
<td>49,653</td>
</tr>
<tr>
<td>Home Mortgage</td>
<td>24,000</td>
</tr>
<tr>
<td>Student Loans</td>
<td>24,000</td>
</tr>
<tr>
<td>Auto</td>
<td>3,600</td>
</tr>
<tr>
<td>Taxes</td>
<td>55,000</td>
</tr>
<tr>
<td>Living Expenses</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>196,253</strong></td>
</tr>
</tbody>
</table>

Debt Service Coverage = $270,715/$196,253

OR

$1.38 earned for every $1.00 debt
Bank Proposals

What To Look For In Practice Finance Loan Proposals

Loan Amount
- 100%+ Financing
- Down Payment
- Seller Participation

Terms Available
- Fixed vs. Balloon
- Deferment vs. Interest Only
- Graduation
What To Look For In Practice Finance Loan Proposals

Loan Amount
- Fixed
- Adjustable
- Variable

Fees, Fees, Fees
- Origination Fees
- Closing Costs
- Attorney and Recording Fees
BANK PROPOSALS

What To Look For In Practice Finance Loan Proposals

Pre-Payment Flexibility
• Principal Reduction
• Payment in Full

Collateral Requirements
• Practice
• Guarantor
• Other Assets
BANK PROPOSALS

What To Look For In Practice Finance Loan Proposals

Rate and Approval
- Rate Lock
- Approval Expiration

Insurance Requirements
- Life
- Disability
- Contents
CRE Costs

Average Commercial Real Estate Costs:

- Appraisal: $850-$4,000
- Title: Depends on loan amount ($2,000 to $6,000)
- SBA: Guarantee fee of 2.7% plus 1% origination
- Conventional (BAC): 1% origination

Commercial Real Estate can be financed over 20-25 years.