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Ash: Hello, and welcome to another episode of Beyond Bitewings. To start off the year, we have a very interesting episode for you guys. My name's Ash and within the studio, we have Robert, who will be talking more about the subject matter. So hello, Robert, how are you doing today?

Robert: Hey, happy new year, I'm doing great. I think the best thing you can say about last year is that it's in the rear view mirror now.

Ash: You're absolutely right, that is so true. So for 2022, any positive notes for our listeners or your own personal resolutions, that will help you, start with the right foot forward.

Robert: Well, gosh, I think the best advice I can give is you hire good people around you and you listen to their advice and act on it rather than you're trying to do everything yourself. And rather than trying to research everything yourself, hire the expert, listen to their advice and then act on it.

Ash: Oh, that's great advice. Yes, definitely for all our listeners, but on a more philosophical note though, is there anything else that you personally, I know last year you told me something that I've actually taken to heart. In fact, I tried to implement it in my own life, which is try to learn something new every day. Is there something else that you've incorporated in your lifestyle this year?

Robert: Well I think I do a tremendous amount of reading. I think most dentists probably are in that same category. They read a lot of materials and I think we tend to fall into a rut and start reading the same materials over and over whether it's a monthly newspaper or a magazine. And so I was listening to someone speak once and they told me, when you go to the newsstand back then we had physical newsstands. I think now it's mostly online, but the point is, choose something that you know absolutely nothing about. I mean, choose a magazine that you've never seen before, just so you can open it up, read it and you do learn something new and it gives you a completely different perspective on some things that you might already know.

Ash: Interesting, okay. So in today's day and age, that would be a blog or a writing, or a short post on Twitter or something, something completely new to something that will help you to have a better understanding of the subject matters--

Robert: Yes--

Ash: Or maybe a different perspective--

Robert: Exactly. And you did ask me about new year's resolutions and it kinda caught me off guard, but now I'm thinking about one that I made this year that I seem to make it about every third or fourth year. Hopefully this year I'll actually do something with it. And that is learn a new language.

Ash: Oh, wow, that's amazing.

Robert: I live in Texas and sorry to say that I do not speak Spanish. I can order beer in Spanish. That's about the extent of my of my Spanish. And that that's about it. So I'm gonna use the online surface babbel and try to learn Spanish this year.

Ash: Interesting, that is a great one, Robert. Oh my goodness babbel. I haven't heard of that one, I know. Usually in the past people used to talk with Rosetta stone. I don't know if that's still exist.

Robert: I think it is.

Ash: But yeah.

Robert: I think it is.

Ash: But I'll look into this. Well, okay, that's great, that's great. All right, so moving on to our episode, the one that a lot of our listeners have been waiting for, we will be talking about current lending market. What has changed, what still exists, basically the whole picture. If you're currently in the market to apply for a loan or maybe refinance and existing loan, maybe apply for a reduction to your current rate, all of that, we're going to cover all of that good stuff in today's episode, so here we go. Robert so on which topic do you think we should talk about first?

Robert: Well, it seems like the hot topic for almost everybody and the first question that I get asked when it pertains to loans is what's my rate gonna be. And I can't answer that specific question because it varies from individual to individual. But the answer is it's gonna be higher the longer you wait rather than getting something done now. Now I've been saying that, and I've been thinking that for probably about seven years now, since we had the banking debacle or the meltdown back in 2010, rates have been historically lowest that they've ever been. And finally, as everybody's seems to know, I think it's gotten into the mainstream now, you see where everybody's talking about rates increasing. The question is when and how much. And I can tell you that a month ago, the general consensus was that the federal reserve would raise the rates probably at the end of the summer, maybe August, September. And we would probably have from two to four increases in 2022 of a quarter point each in the prime rate, which translates down to an increase in your borrowing rate when you go to your bank. Now that was a month ago. And then we've had another month of economic data reported for December now. And we see that inflation is even higher than it was in November. We see that more people are quitting, the great resignation and the economy is still ticking along pretty well and maybe a little too well. And so the federal reserve has moved that up and actually, they may increase rates as early as March.

Ash: Oh wow.

Robert: And having said that, I'm very surprised that I got a loan proposal today for a client. And the rate they quoted me was 2.99%, which I was very shocked.

Ash: Wow!

Robert: Because even the middle of last year, when rates were at their lowest, it was still difficult to find lenders loaning money for less than 3%. There were a few out there that were maybe as low as two and three quarters and a couple at 2.99, but not very many. And at this point I've seen some up over 4% or certainly at 3.95. So to see one today, middle of January at sub 3%, was very surprising. And the other thing that surprised me is on the commitment letter that the bank sent, they said that rate is good through May, the 22nd. Now, normally on a bank commitment letter, they'll put an expiration date in there of about 30 days. I've never seen one go out four months. So they're locking in this rate for over four months, which is shocking to me, but of course we have a client that's gonna take advantage of that. So I think that the time to refinance or to borrow money for expansion or anything, if you're gonna be borrowing money, the time to do it is earlier rather than later, because rates are gonna increase this year, maybe as early as March. And maybe as many as four times during the year, I anticipate that the rates are probably gonna be a quarter point increase each time. So whereas the prime rate today may be, what is it 3% by the end of the year, it could be 4%. What that means is if you're borrowing money from a bank today at 3.5 percent, you're probably going to be offered 4.95 at the end of the year. So the rates are gonna get back up there. I think again, if you are planning any projects, whether it's construction loans or expansion equipment, pretty much anything do it in the first part of the year, rather than waiting till the last part of the year. And typically people wait to the last part of the year, just because of taxes. They're gonna wait, the first half of the year, they're trying to determine what their taxes were for the prior year. They're coming up with money to make payments. And then they go into sort of automatic mode through this middle of the year. And when they get toward the end of the year, then they start planning on your end. And that's where they start purchasing things and spending money or borrowing money need to flip that around this year. If they're going to borrow money, they need to do it earlier rather than later.

Ash: Interesting, okay. Those are some good tips. Now let's say I'm the person who's currently in the market, who's trying to acquire a loan. What are some of the things that I would need to have ready before I even consider applying for a loan? And let's say, we're talking about a startup, a practice startup loan.

Robert: Well practice startup loans are pretty unique animals. There's a couple of lenders out there. There's not many lenders that will do a startup loan. And there's a couple out there that are big in the market and they don't require much for a startup loan because they know that a dentist is a good credit risk. Generally the default rate for dentist on business loans is less than 1.5 of 1%. The lenders all know this. And so they'll loan. I think they're loaning currently about 550,000 for a startup. And you don't have to have any collateral. You don't have to put in any of your own money. You can have a negative net worth. If you take into account your student loans, if a lot of it, the doctors have student loans and they'll still loan up to over half a million dollars to get that practice started and off the ground.

Ash: Wow, that's a great tip. See, I wouldn't have thought of that. I mean, if I'm graduating fresh out of school with a lot of student loans, I would think, oh, I'm not there yet. I already, at the very least I haven't saved about 20%. A lot of times lenders ask for, to have on hand before even applying for a loan. So you're essentially saying I could have nothing with a negative net worth and still go ask for money. And they would lend me that money just because I'm a dentist.

Robert: Generally you have to have two things to qualify for a loan, if it's a startup, one is a dental license--

Ash: Okay.

Robert: And the other is a driver's license. That's about it. I think I've been told by some of the lenders, if you can fog a mirror, in other words, if you're breathing, living, and you have a valid dental license, then we'll give you the loan. That's almost, it's almost that easy now, you can't have terrible credit, but even if your credit is, mid six hundreds, you can still get the loan to start a dental practice.

Ash: Wow, that's amazing. And what about the location? Is that something that I would need to first acquire or maybe talk to real estate professional or someone who could find me a location before applying for the loan?

Robert: Well, sure. You know when you buy any real estate, the brokers always tell you the three most important things are location, location, and location. And that goes the same with a dental practice. When you're looking for a place to locate your dental practice, remember you're probably going to be there 20 plus years and you need good demographics for potential patients, prospective patients. You need a good amount of business around you to generate activity. You just want to be in a place that generates a lot of activity and has housetops, rooftops in the neighborhood for the patients. So you do look for that location. And there are a specialist out there in the real estate industry, that's what they do. They specialize in finding new locations for startup dental practices.

Ash: Awesome, so I don't even have to worry about finding a location. I can just acquire the services of one of these specialists who will help me find this place. And once that place is acquired, not really acquired, but you know, I'm aware that there's this place that can be leased out or built upon, then I go approach a lender.

Robert: Right, and the first time the startup dentist needs money generally is when he signs the lease for the space that he's gonna build out for his practice. And oftentimes I find that a startup dentist doesn't realize that they need money at that point because the landlord suddenly comes to him and says, okay, we'll do this lease, but we need to check for the first and the last month's rent. Well, that's usually about \$15,000 and these are, dental students that have gotten out of school. Some of them have been out of school six months. Some of them had been out of school a couple of years, but very few of them have \$15,000 saved and in the bank and can just, write a check for that amount. So then they start looking for a loan and it's kind of late at that point to be looking for the loan. If you don't have the loan already lined up, by the time the landlord comes to you to sign the lease, you could lose the lease. So it's good to have that loan lined up early.

Ash: So that is possible.

Robert: Oh yeah. It's contingent on the lender approving the lease, but I can't imagine a time over the past 20 years that I've seen the lender. Maybe once, that I've seen a lender that did not approve the lease because the monthly payment was too high.

Ash: Now, are there any other things that a lender may be looking at before they consider approving the loan? And when you go to them, maybe the competition, or if they've already lent out a lot of money in that certain city for dentists or startups, anything like that?

Robert: They're not gonna really look at your competition. I've literally seen banks make loans, within a half mile of each other, for dentists that are starting up practices from scratch. So they seem to be comfortable with that. Again, a dentist is a good risk from a balling standpoint. So they're going to make the loan. I think one thing that they do look at, they are gonna pull your credit. It just doesn't have to be exemplary and you don't have to have a lot of cash saved in the bank. 'Cause you're not gonna need any of your own cash to start your practice. You're going to be able to borrow not only enough cash to do the construction and the equipment purchases, but you're gonna be able to borrow enough cash to cover overhead, for probably up to six months until you break even. So they're gonna loan you the money, but you gotta have decent credit. Doesn't have to be again. Doesn't have to be exemplary, but it can't be terrible. Generally they don't ask for any tax returns for prior years, they might ask for the most recent one tax return, that's about it. Now I will caution some people when they're filling out the application to the lender, don't go overboard and list a lot of assets that you might be questionable. And I say that because the lenders will come back and ask for proof sometimes that you actually, I mean, if a client says, "Hey I've got a hundred thousand dollars in a bank," then the lender is going to come back and say, well, give us the prior three months bank statements so we can see the average balance. So be prepared to prove whatever you put on your application.

Ash: I can't imagine a client or a dentist doing that just to maybe up their chances of getting the loan approved. They may think that, okay, the more cash I show them I have saved up. They may think I'm a better candidate. So you're saying that's not always the case.

Robert: Well, if they have the cash listed, absolutely show it on the application, but be prepared to prove it. The other side of that coin is, don't consciously not list some debts that you have. You know, if a bank pulls a credit report and sees a credit card on that report, that you didn't show on your application, they're gonna get suspicious. What else did they leave off? It's just going to open a can of worms. They're going to start questioning things. So list everything that you owe and list only the things that you can prove on the asset side of the application.

Ash: And speaking of the credit report, a lot of times I've noticed that, especially for the dentists that are fresh out of school, they may have multiple student loans. And one thing that they sometimes do right before opening up a practice is, student loan consolidation. Is that something that you would recommend for them to do the months prior to applying for practice startup loan? Or can they do it as close as maybe a month before your applying for the practice startup loan?

Robert: I don't think it's important whether it's, a year or six months ahead of opening the practice or whether it's a month ahead. If they have a chance to reduce their monthly cash flow requirements to make those student loans, then they should take that opportunity. Now long-term what we try to do at Edwards and Associates is we try to be able to borrow enough money to roll the student loans into the business loan, because that makes the interest deductible. Interest on student loans is not deductible if you make above a certain amount and it's pretty low, I think it's about \$75,000. So we try to roll those loans into the business loan, but you can't do that on a startup. That would be a more mature practice. That's that's got some equity in it from years of operations. So we have clients that have been in practice maybe five years and sometimes there's enough equity in their practices to roll those student loans in, get a lower interest rate and pay less tax because that interest is now deductible.

Ash: Now, maybe talk a little bit further about this because to some, they may look at it this way where that the student alone is under my personal name. This business loan is for the business. How can my personal loan be rolled into a business loan?

Robert: Well, the business loan may not be in the name of the business. There's an issue that I'm not gonna go into because it's complicated, but it's called tax basis. And depending on how your business is organized, a third-party loan such as a loan from a bank will not give you basis. And you have to have basis to take deductions for your equipment purchases sometimes, most of the times. So we structure those loans where they're in the doctor's personal name. So your business loan can still be in your personal name for tax purposes.

Ash: Isn't it also designed as such where it's not really a consolidation, rather you're pulling a working capital loan from your business loan and you're using those funds to pay off your student loan.

Robert: That's correct, yes, exactly.

Ash: So we still have the separation. It's just the way we're going about it from accounting. That's allowing them to be technically consolidated.

Robert: That's correct, yes.

Ash: Okay, so that's good. So that's from a startup perspective and that's great. So all I need is basically a tax return if I'm a dentist right out of school in about \$50,000 saved up, and I can think about starting a practice.

Robert: And a dental license of course.

Ash: And a dental license of course . What about the existing practices? So for instance, let's say I already have a practice loans through one of the big lenders. And currently I have been hearing from my peers that the rates have dropped and I'm considering refinancing.

Robert: This is a great time to take advantage of that. As I said before, rates are gonna be going up maybe as early as March. So if you have had a loan outstanding with your lender for three, four or five years, now's the time to refinance it. Chances are you can drop the rate,

lengthen the term, drop the payment, improve your monthly cashflow, and you need to lock all that in before rates start going up.

Ash: And what if my existing loan has a prepayment penalty and I'm still within that period is it's still something that I should, the refinancing is it still something that I should consider, or.

Robert: We would have to look at the cost analysis and see if the benefits in refinancing by lowering the rate and lowering the monthly payment are gonna offset that prepayment penalty. Some of the prepayment penalties are, five figures. I've seen some that were well, I've seen a few that were actually in excess of \$20,000. That makes it very difficult to justify. But if you've got a prepayment penalty, that's down to one or 2%, if they borrowed half a million dollars, 2% is 10,000. You can probably save that much in maybe six months by refinancing. So it's still worthwhile sometimes to pay the prepayment penalty, get it behind you, and then reduce your rate and your payments on your new loan by enough, to offset that within the first year.

Ash: And what if I have other loans on my books. Let's say I have a couple of equipment loan and maybe a couple of credit card loans. Would it be possible for me to consolidate into this new refinance loan?

Robert: Sure, and that's one thing we try to do unless the equipment loans are at 0% interest. I've seen some of those the last few years, or if they're at a low rate of interest. I mean, if the rate on the new loan that we're gonna use to refinance the existing debt is lower, then we would roll them in. If it's higher, then I would leave those other loans out there. If the new lender will allow it, sometimes they won't allow it because they want first lien position on all of the assets of the practice.

Ash: Now I know, whenever people are talking about loans are lending, they're just talking about the rates, but there's also this other important factor that I feel like a lot of our listeners should also pay attention to is the term.

Robert: And I've always said term is more important than interest rate. I say that because as a financial planner, the most important thing should be cash flow. And the term of a loan affects your monthly payment about seven times more than the interest rate. So if you took a loan from seven years to 10 years, it would reduce the rate. I mean, I'm sorry. It would reduce your monthly payment by much more than if your interest rate was a whole percent lower. So the term is going to affect your monthly payment much more than the change in interest rate.

Ash: Right?, right, right.

Robert: So I'm a fan of longer term loans as a financial planner, because I want the client to have more cash flow. And then we can use that cash flow to fund a retirement plan or pay taxes or whatever they deem is appropriate.

Ash: Those are great tips, Robert, and I can see how that would help out our start-up listeners or listeners that are thinking about having to start up loan or even our listeners that currently have an existing loan who's planning on maybe looking into some other lenders for refinancing. Now there's also this third thing that I've been hearing a lot about from our listeners, which is a

rate reduction. So basically you're sticking with the same lender and asking them for a rate reduction. How does that work?

Robert: Sometimes when you go to your lender to get a payoff letter, because you're refinancing the debt, their question is why do you need the payoff letter? And you tell them I'm refinancing my debt. And they say, what would it take for us to be able to keep this? And you tell them you would have to reduce my rate to such and such be prepared to answer that question for them, because some of the lenders will do that. Lending is a competitive environment and some of these banks want to keep your loan. So rather than lose it to another lender, they're willing to drop the rate through a loan modification, which costs you nothing, or maybe a two or \$300, what do they call it? Documentation fee and that's about it. And for that cost alone, sometimes the bank will lower your rate from, maybe 5%, 5.5 percent down to 4% or 3.5. I've seen it happen. There are banks out there that I think it's a good practice. If they'll ask that question, why do you need the payoff letter? And you tell them you're refinancing. And then they say, well what would it take for us to be able to keep your loan? And they'll drop the rate. And that's just a phone call that's well worth doing. Sometimes I suggest a client try that as a first resort.

Ash: Right, and then I'm guessing it's much simpler than the actual refinancing with a different lender.

Robert: There are most of the times where I see a loan modification when it's rate related, they don't even ask for updated financial statements. Now I think they do sometimes, but I know particularly some lenders that don't even ask for any documentation. So all you have to do is let them know I'm working with a new lender and I need a pay off letter. And sometimes they'll just make the offer to lower your rate right there on the spot on the phone.

Ash: Oh, wow amazing. So no new loan agreement or anything, it's everything's with the existing terms.

Robert: Right.

Ash: And conditions.

Robert: Yes.

Ash: Okay.

Robert: I got one this morning. It was a loan modification agreement for a client. It was two pages long, that's all it was. And basically it was a form where you just check the boxes. It was interesting, very, very easy. The bank doesn't have to spend much time putting that together. They email it to the client, the client electronically signs, it, emails it back. It's done.

Ash: Oh wow, that's amazing. And then whenever a loan is modified in such a way, please be sure to let your accountant know that the rate has changed or forward a copy of those two pages.

Robert: Yeah, absolutely. We need the documentation to be able to properly account for everything.

Ash: Exactly, all right. Great, so those were some great tips, Robert, and if you listeners were listening to him and you guys are currently in the market to apply for a new loan right now is the right time. And if you guys need assistance with that, we do work with several lenders. Please feel free to reach out to us. Or just in general, if you guys have questions or just want to share what your last year's experience was like. And if you guys have some feedback for us regarding our podcast would love to hear from you guys. Thank you so much again, Robert, for being here with us today.

Robert: Anytime.

Ash: And we look forward to hearing from you. Our contact information is info@eandassociates.com and that's A-N-D spelled out. Till the next time, take care, goodbye and wish you all well.

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