

Healthcare Finance



Introducing your future funding partner

Introduction

At Sterling Commercial Finance Ltd, we recognise that the healthcare finance sector is unique. We have our own in-house specialist, with years of experience within the specialist healthcare team of a high street bank.

Most lenders regard Healthcare Finance as funding for GP's, Pharmacists, Dentists, Vets and Care Homes.

This can be in respect of practice acquisitions, buy ins, new premises, premises purchase, practice purchase including goodwill or simply funding for working capital or new equipment. Funding is also available for new build surgery or medical centre developments.

Most lenders have a very significant appetite to lend for healthcare acquisition or perhaps purchase of freehold business premises or simply to buy into a practice and will often, depending on the sector, do so with a significant unsecured element or for the right business totally unsecured and little if any customer contribution at 80% to 100% loan to value with interest rates that other sectors can only dream of.



Steve Divall
Healthcare Finance Consultant

There is a greater appetite to lend, even in difficult financial times, as in some sectors the government / local authorities provide financial support or incentives not available to everyday businesses whilst in others perhaps NHS contracts or love for pets means an almost constant demand with payment from insurance backed payments.

This means that lending defaults are, as a group, lower than other sectors giving lenders greater confidence that the business should do well and importantly lenders feel able to consider lending what can be very significantly amounts on an unsecured basis.

This equates to up to 100% loan to value funding for freehold property purchase and generally 80% loan to value business acquisition (but can be higher for the right deal), lower interest rate margins and higher unsecured facilities.

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How much can you borrow?

Healthcare lenders are less focused on a maximum amount as they are on serviceability, sector experience and qualifications. The ability to show you have, or can with the right support, manage the target business(s) is more important. If looking to expand, perhaps high fee generation, then comfortable stress tested serviceability with good financials and a clear view of the way forward is essential.

Whilst some lenders will have an unsecured maximum of £300,000 per individual, we have seen as much as £20,000,000 unsecured arranged, depending on how a lease(s) may be valued.

Vets are seen as being partially protected from recession as pet owners will often prefer to spend on their pets than themselves.

Healthcare lenders are less focused on a maximum amount and are prepared to look at any deal so long as it is comfortably stress tested for serviceability.

■ 100% Loan to value for freehold premises

With GP surgery, dental practice, vets and pharmacy owner occupied premises, there are enough lenders who will be happy to lend. As always, subject to serviceability and for GP's adequate notional rent to consider 100% LTV. For the remainder lenders will generally look at up to 80%.

■ 100% Loan to value for business purchase

Lenders will probably want a cash contribution. The thinking is that if you have money in the proposition and importantly if you have had to work to get that money then you will make a greater effort if the business struggles.

■ More than 100% loan to value

Some lenders will but usually only in two sets of circumstances;

A – Up to 105% LTV generally subject to 100% LTC to cover cost overruns in new GP surgery developments.

B – To cover early repayment penalties when refinancing GP surgery borrowing to obtain significantly lower interest rates. Depending on serviceability, lenders may seek additional security.

■ More than 100% loan to cost

Unlikely, however they should be happy to consider additional funding for say premises extension / upgrades.

How long can you borrow for?

5 to 30 years repayment terms depending on purpose and lender

What experience do you need?

Experience is an important factor in evaluating a lending proposition. Lenders are not generally keen to lend to people inexperienced in the sector they are looking at.

However, depending on the proposition, level of contribution and security, we do have lenders who are prepared to consider lending to recently qualified professionals. Why not contact us and see what we can do?

Preparing to apply for Healthcare Finance? What is required to put a proposition to a lender

■ Accounts, Bank Statements and a Business Plan

3 years audited accounts as well as business and personal bank statements. Business Plan is not always necessary but good to prepare one as it should help highlight potential problems.

■ Valuation of business and premises

Needs to be undertaken by a specialist bank panel valuer.

■ Facts, Forms and Reports

Personal fact find including mini CV and ID requirements. Variety of compliance regulatory broker and bank forms. Good CQC reports where applicable.

■ Income Data

This will include Notional rent if a GP and Target sales details where applicable.

■ Due Diligence

Solicitors experienced in the sector will be able to navigate the due diligence complexities.

■ Taxes

Accountant confirmation of personal and business taxes are paid to date.

■ Experience of the applicant

ie if a dentist, vet or pharmacist first practice purchase have they ever worked in and managed (on a day to day basis) a practice. What special interests and qualifications eg implants, cosmetic or orthodontics can they carry out.

■ Pharmacy

Location is particularly important; Are you located in or close to a GP surgery, how many patient, how many other practices are close by, how many pharmacies are close and could be seen as in competition. You will also need to show FP 34's.

■ Dentists, Pharmacies, Vets and Care Homes

A copy of the sales pack is always very helpful to lenders.

■ Dentist

Able to show current work as an associate that you can either do the fee income required (evidenced by say number of UDA's and or fee income as shown in your accounts) or that you should be able to step up and why . Also the value of each UDA as is some areas can be as low as £10 and others xs of £40. List dentists issued with a contract and get a monthly vital signs report. Banks will want to see the contract summary and last twelve months vital signs.

■ Stress tested serviceability checks

Stress tested serviceability checks *currently Bank of England* expect lenders to work to a suggested minimum of base 3% but lenders do use other calculations eg base on a term fixed rate.

When checking serviceability lenders may want your accountant to estimate the tax you and or your business or both are likely to pay over the coming two / three years after you purchase your target to enable them to show you can afford loan repayments. They will also take into account the information you provide on your fact find and a review of your own and any business bank statements.

What fees will you have to pay?

There will be interest, usually linked to base but a great variety of fixed rate options are available with most lenders.

Arrangement fees: These can vary significantly from one lender to another.

Solicitor and security costs: You will be expected to cover your own solicitors cost and security costs (don't forget stamp duty on property). Where the transaction is sufficiently large or a company is purchasing the share capital of another company, the lender may well want to put in their own solicitors to run alongside your own and you would have to cover these costs, which could be expensive. If you are looking at a significant new build, the lender is likely to ask for monitoring surveyors, their own solicitors and you would have to cover the cost.

Broker fees: Our costs are usually met by the lender – we will not ask you for a fee - and very unusually where they are not, we will advise you of this up front. We earn our money by structuring a funding package that suits you best and we only get a broker fee from the lender on drawdown of any facilities. The lender will not have increased their costs to you to cover any broker payment to us. We would expect to take an additional charge if you need help in preparing a business plan.

Valuation costs: This may be property and or business valuation, and these can vary depending on the lender and valuers used.

The list is not exhaustive.

I am a GP wanting to buy the surgery premises?

Will banks lend to one GP partner to buy the surgery premises

Yes but they will want a lease between the practice partnership and the doctor.

Banks will almost always want a lease between the practice partners and property partners where they are different. Where the partners are the same in both cases lenders *are may / may not* want a lease but will almost certainly want a commitment to have a lease in place should matters change.

Do banks lend to single handed GP's to enable them to buy their surgery premises.

Yes but lenders would need to be convinced that the CQC are supportive of a single handed practice and are not looking, now or in the short term, to merge the practice into a larger practice/medical centre. The premises would also need to be suitable for use as a GP surgery now and for at least the term of the loan.

Can doctors take out "their own loan"

When a partnership arranges surgery premises finance, most lenders will agree to a partnership loan facility which enable partners to have funding "tagged" with their name. Essentially a partnership loan facility broken down into segments eg ABC practice Jon Doe allows partners to agree to a faster loan repayment for "their share" of the partnership loan within a joint and several liability within a partnership loan. This can be messy when a partner leaves and or joins and wants to borrow as it can require new loan forms for all parties. Generally better to have one loan with accountant making annual adjustments to amounts outstanding and apportionment of interest.

Funding for GP's

Banks have always been comfortable in lending up to 80% of the freehold premises value and a good number are comfortable with lending up to 100%.

- **Buy in / by out loans**

Generally 100% LTV – significant stand alone unsecured funding.

- **Freehold surgery premises partnership loans**

Freehold surgery premises partnership loans 100% LTV not unusual with most lenders comfortable in arranging individual partners funding within a joint and several liability partnership facility. This is often asked for when partners want to overpay “their share” of a premises loan. *Having said this lenders prefer a straightforward one loan partnership facility*

- **Freehold premises Propco**

100% LTV where the partners buy the premises through a property company. Lease will be required between practice and propco. Bank may / may not ask for personal unsupported guarantees from partners to cover the “unsecured” funding ie between 70% and 100% of property value.

- **New build development finance GP surgery and of medical centre**

100% LTV possibly up to 105% and possibly as high as 110% loan to cost.

- **Medical centre development finance**

100% LTV, possibly up to 105% loan to cost. This includes surgery premises and generally a pharmacy but can also include private hospital with consulting rooms for medical consultants CQC staff and others.

- **Property extension / upgrade**

Finance available up to 100%.

- **Premises refinance**

Up to 100% LTV - Some capital can be released to partners to but bank would need to be happy for reasons eg school fees or pension payments for private work.

An important feature will be the amount of notional rent – which for many lenders, is the driving force for serviceability calculation. Lenders will also take account of any other “guaranteed” long term rent ie from a pharmacy, private hospital or dentist subject to long term leases being put in place.



GP Practice Funding

At Sterling Commercial Finance we recognise that the healthcare sector is different. We are able to source a wide range of innovative and competitive finance packages tailored to the needs of GPs and GP Practices.

We can help if you are a GP or a GP Practice:-

- Looking for Finance to build a new surgery or medical health centre?
- Wishing to purchase your own practice premises
- Wishing to finance an expansion?
- Looking to buy into a practice?
- Requiring a loan for new equipment?
- Disillusioned with your current financial lender?

We have many contacts within the major banks, together with specialist niche healthcare lenders, and we know the types of deals that are synonymous with this sector.

You can be confident that we will source an appropriate funding structure for you.

In the current financial climate, even for working professionals such as GPs and GP Practices, it is not always possible to find a lender who will be flexible to changing circumstances. We have developed relationships with our lenders to such an extent that the underwriters do their very best to accommodate the most stretching of our customers' requirements.

GP Surgery Buy-In Loans

Our healthcare team have put together a significant number of lending packages over the years enabling doctors to "buy into" GP Surgeries.

These deals are seen by most lenders as a fairly straight forward transaction.

Currently however, lenders are no longer so keen to lend to GP's for what is often stand alone unsecured finance (that is without the benefit of the practice bank account and or security over the practice premises or perhaps your family home).

Most lenders will now seek personal security from doctors behind any lending.

Sterling's strong links with all the specialist funders means that we are still able to broker excellent stand alone unsecured finance for most GP's and on extremely competitive terms.

GP Surgery Developments

Sterling's healthcare funding division find funding solutions for your GP Surgery Development projects.

You are in a specialist market so use a specialist broker who understands your sector. With access to major banks to specialist niche healthcare lenders, we know the types of deals that are synonymous with this sector.

Our healthcare specialists have, over many years, put together finance packages for GP's / Doctors to:-

- Build new GP Surgeries where one or more practices are coming together in a locality to enable them to provide additional and more cost effective services.
- Extension of current practices to provide additional space to accommodate growth and anticipated future growth in patient numbers.
- Upgrade of current surgery premises.

Each project will have its own particular challenges and maybe the larger developments more than most. Not least because not all the doctors will have the same requirements, financial or otherwise (some may be nearing retirement others just joining their first practice).

Development finance – always a challenge as the whole development process can be a long process with many potential pitfalls not least planning permission and getting NHS England and CQC agreement to both the need for new medical centre and notional rent. Not unusual for doctors to be gifted land under section 106 and or get grants such as the former ETTF grants. In these cases notional rent is usually abated for a term. To make the deal viable pharmacies are encouraged to take space and pay rent to the doctors and rooms may be let out to local CQC and medical consultants or in the larger development a private hospital make take space. Funding considerations will primarily be notional and pharmacy rent plus any other long term guaranteed rent with a good covenant eg 10/15 year lease or longer.

Refinance – an increasing number of lenders welcome applications for freehold premises funding. Notional rent is a particularly important figure when assessing GP surgery finance.

Examples of funding potential are:-

- Loans up to 100% of the total cost of the new development including all fees and roll up interest.
- Loan repayments of up to 30 years.
- Up to 50% of the loan could be interest only for the full term of the loan (this could be for full 25 years).
- Partnership. Property Company or Limited Liability Partnership loans.
- Base rate variable rate or fixed rate loans.
- Mix and match of loan terms and rates.

Funding for Dentists

Banks have always been comfortable in lending up to 80% of the goodwill and 100% of the freehold premises value. They will still, for the right person and the right business, look at applications for 100% LTV funding especially where there is a large NHS contract element and or very significant capitation scheme in place.

100% LTV funding becomes more comfortable for lenders and thereby more likely when a dentist is experienced and can show they can comfortably undertake the work required with or without associates so long as serviceability is strong.



Types of Dentists:

- **NHS** (Contract issued by the CQC)
Generally up to 80% LTV for business and 100% for freehold premises. For the “right deal” we have seen higher percentage funding for business purchase (100% LTV) although over recent years this has been the exception.
- **Private**
General dentistry and specialist procedures like implants, extractions, cosmetics and orthodontics. Importantly lenders will want to know what proportion of fee income is from capitation eg denplan and what % of income is fee per item. This will generally drive appetite percentage LTV for business purchase. Up to 80% for business purchase and 100% for freehold property. Again for the right deal we have seen higher percentage for business purchase but this is the exception rather than the rule.
- **Mixed**
Depends on the mixture however lenders generally like to see more than 50% NHS contract together with more than 25% capitation. Or could be more than 50% capitation.
- **Orthodontics and other specialists**
Often a specialist practice on its own, but can be done by your own dentist if qualified. Generally 80% LTV for business and 100% freehold practice premises.
- **Cosmetics**
Lenders are unlikely to go as high as 80% LTV, often much lower, for business purchases but will usually consider up to 100% LTV for freehold premises.

Whilst lenders appear to have a policy limit on the unsecured element we have seen very significant unsecured funding for the right target right business and right client.

Funding for Vets

Banks have always been comfortable in lending up to 80% of the goodwill and 100% of the freehold premises value.

- **Business Purchase**

For a strong business with an experienced operator, up to 80% LTV should be achievable. Lenders may want security if just business purchase.

- **Freehold practice premises**

100% LTV.

- **Combined business equity and freehold premises**

80% LTV should be achievable for experienced operators and a mixture of the above depending on strength of the target. Having said this, we are aware of lenders who will look at up to 90% LTV for combined purchases.

- Whilst lenders appear to have a policy limit on the unsecured element we have seen very significant unsecured funding for the right target right business and right client.

- Maximum term of 15 years for unsecured business purchase up to 25 years for freehold and 20 yrs for combined.



Funding for Pharmacies

Some “healthcare” lenders have fallen out of love over recent years with unsecured pharmacy funding and or dropped loan to value funding however funding has always been available for strong businesses and bank appetite is slowly coming back

- Average loan to value for business purchase appears to be 70% but some lenders would be willing to look up to 80% LTV funding secured against pharmacy contracts. Some lenders would have appetite to go to 80% if good tangible security were available. Maximum term is generally 15 years.
- 100% LTV against business freehold premises is generally available. Maximum term for some lenders is 15 years where 20/25 years would be comfortable for others.

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0115 984 9800

info@sterlingcommercialfinance.co.uk

www.sterlingcommercialfinance.co.uk



Sterling Commercial Finance Ltd
Sterling House, 5 Wheatcroft Business Park,
Edwalton, Nottingham, NG12 4DG

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