Show Me the Money

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The vast majority of today's dental students are graduating with significant debt. Most new graduates ultimately desire to own a practice—and that's where smart financial decision-making comes in. Everyone knows of that person in dental school who bought a new car or went on expensive vacations courtesy of their student loans. But the reality is that generally student debt is rising right in step with tuition and fees.

According to the American Dental Education Association (ADEA) Survey of Dental School Seniors, in 2005, the graduating class averaged educational debt at graduation of $129,639. Only 8.4% of new graduates were able to finance their dental education without taking on debt. That means that 91.6% of graduates have student debt.

The ADA 2004-05 Survey of Dental Education showed tuition alone averaging about $85,000 for four years of dental school for state residents (and almost $130,000 for four years at out-of-state rates). It's easy to see why the average graduating debt is so high.

The 2002 Survey of New Dentist Financial Issues reveals that recent graduates average $9,000 per month or $109,000 per year as an associate full-time dentist. However, it's easy to see how that $9,000 per month disappears when you factor in the average monthly costs of living.

$ 2,700 taxes
$ 1,500 rent or mortgage payment
$ 500 utilities
$ 650 car payment and auto insurance
$ 1,000 life, disability, and malpractice insurance

Student loans take another $1,200 per month, leaving just $1,450 per month for groceries, clothing, gas for the car, health club membership and most important: savings. Getting married? Having kids? It all adds up. With credit card or other non-educational debt, missing even one payment or making the wrong assumptions about the grace period before the new graduate has to start making loan re-payments, can all have a negative affect on the all-important determination of credit worthiness, the credit score.

Good credit is the key whether you're buying or building or purchasing your first practice or your first home. While lenders look at a number of factors when making a credit decision, the most critical aspect of your financial profile is your personal debt such as credit card debt, lines of credit and student loans. Your overall credit rating is based on amount of debt and timeliness of monthly payments.

Having good, well-managed credit will make it easier to secure the financing needed to purchase, build or expand a practice and it's never too soon to develop a healthy financial profile. Here are five simple steps that can be taken to improve your credit rating:

1. Maintain at least two or three revolving credit accounts (such as credit cards and lines of credit). This will demonstrate that you know how to use your credit wisely by not using all the credit available to you. However, avoid applying for credit from too many lenders as multiple credit inquiries made within a short time frame will negatively impact your credit rating.

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2. Make on-time monthly payments on credit cards, mortgages, installment loans and student loans. Remember, most service providers such as doctors' offices, cell phone companies and others will report late payments and collections to credit bureaus.

3. If you are in dispute with a creditor, continue to make minimum monthly payments while working towards a resolution.

4. Protect your identity. Review your personal credit report at least twice a year to ensure accurate reporting of all accounts. Inform all credit bureaus of any discrepancies in writing. Remember, all credit information stays on your records for up to ten years.

Expert advice for graduating dentists or associate dentists is to cut expenses on big-ticket items and monitor daily spending. For example, skip the expensive new car—even though you deserve it—and watch how often you eat out. Limit your use of credit cards. But don't put off buying insurance, because the financial consequences of not having it when you need it can be devastating. Monitor your credit reports, keep an eye on your credit score and plan ahead so you can accomplish your long-term goals. It may be common sense, but it takes constant diligence. And it's just the start of a lifetime of sound financial decisions you'll need to adhere to so you can accomplish your long-term goals.

So how does a recent graduate enter into the world of private practice dentistry? Start-ups are very costly with leasehold improvements averaging $100-$150 per sq. ft., new equipment with all digital/paperless technology in the $250,000 range and a new 1,000 sq. ft. office can easily cost $350,000 to $400,000. With all of the new walls and equipment, there is no history of new patients or cashflow. Usually a startup dentist is forced to have an associate job just to pay the overhead of the new office and living expenses.

The easier path is the purchase of an existing practice with a historical cashflow. The negotiated purchase price is determined so that the available cashflow will satisfy the overhead of the practice as well as servicing the purchase debt. After debt service, there should be enough money left for reasonable living expenses. How does all of this relate to practice acquisition? Lenders for practice acquisition are willing to lend 100% of the acquisition costs of a practice plus working capital! Sellers are not generally required to cosign or guarantee the loans and are generally unwilling to do so. The best rates and terms are available for purchasers with the best credit ratings. Lower credit ratings can adversely affect a purchaser's interest rate or even a purchaser's ability to qualify for loans. Professional Transitions, Inc. can assist purchasers with loan acquisition with leading lenders.

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