Find me the money

Christian Reilly discusses the options available to dentists looking to raise finance.

Where do you start if you are a business owner who wants to raise finance? Contacting a bank you may have used in the past may sound like a good starting point. But how will you know this will get you the best deal with the best terms?

Navigating the debt markets has become increasingly challenging. There are literally hundreds of potential lenders out there for business owners to consider. It is hard to narrow it down and identify the best lenders for your particular proposition. Historically, the majority of lending to the small and medium sized enterprise (SME) sector was negotiated locally. Now bank branches are closing, bank manager numbers are reducing, and financial institutions are substituting face to face discussions with digital funding applications.

Identifying a lender that has a strong credit appetite for your business sector, and then finding the person with the experience and strong internal network to deliver the transaction, can often prove a long and frustrating process.

Once you have found the right person at a sympathetic lender, you have to prepare your business plan, pull together all the supporting information the lender will require and present your case. The information lenders require varies from lender to lender. You only get one chance to pitch your proposal to a lender.

Getting declined by a lender means their door will remain shut. Repackaging the proposition and even getting someone else to present your proposition again will not lead to the lender having a second look. It is therefore vital to put a persuasive case on the table first time.

You should also understand the lenders financial and non-financial criteria for the project you are seeking to fund. It is a myth to think the figures will speak for themselves. The lender will want you to provide a detailed analysis of how the deal will hang together and why it is a good risk for them. It is often the non-financial considerations which can present unexpected hurdles. These are difficult to predict if you do not deal with lenders on a frequent basis.

I have read a host of guides to preparing a business plan and techniques to employ in identifying and then approaching a lender for finance. The reality is that there are

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innumerable variables at play and a basic map of the lending landscape will only take you so far. What you need is an experienced guide.

The terms offered by lenders can vary quite dramatically. An experienced guide will point out the risks, and also the opportunities represented by different offers. The importance of commitment periods, the penalties that may arise if you wish to repay early, and the additional costs involved if the lender requires their own independent legal support on the transaction. These are just a few of the things that need to be checked before you sign on the bottom line. I should also mention that lenders do not offer clients who go directly to them rates that are as competitive as those they offer their broker network. This partly reflects the fact brokers are a volume client and that their proposals are well packaged up in ways the lenders can quickly assimilate and decide on.

Loan to cost/value percentages vary quite significantly between lenders but pricing can also be a surprise. It is not uncommon to see a spread of one per cent between the highest and lowest interest margins on a deal. This can make a very significant difference to the total interest paid over say a 15-year repayment term. For example, a £500k loan charged at base rate plus 2.75 per cent will cost the borrower c.£25k more over the full repayment period of 15 years (assuming base rate unchanged) when compared with the same loan on a margin of 2.25 per cent.

In order to make sure you get the best deal with the best terms enlist the support of an experienced debt advisory business. Not only will they have a strong relationship with a panel of lenders, but they will also have up to date knowledge of credit appetite, non-financial considerations, the information the lenders will want to see, and how best to package and present your proposal.

A good debt advisory business will deliver a substantial ROI. They will save you time, save you money, as well as dramatically improve your chances of securing the funding you require on the best terms.

Take your time choosing your debt advisor, as you would when engaging any important professional adviser. Do your homework, review the firm's website, the individual professional profiles of the key members of their team. Consider how long they have they been working with SME's and raising the type of finance you need.

Once you have checked what their LinkedIn profiles and client testimonials say speak to them. I recommend you ask how they would approach a specific project. Do they know how a bank would respond to a specific project, or do they just promise they will find out?

This is someone you will be working with closely for four to eight months depending on the type of transaction. You must feel confident they will represent you professionally and with the authority that comes with advising on numerous projects over an extended period. Expect an experienced adviser to charge fees.

Finally, don't be shy about telling your existing bank that you have engaged a debt advisory firm. This is becoming the norm in the SME space, as lenders look closely at their productivity levels and seek to maximise lead generation from this channel.