



# Banking in dentistry

By Dr. Clayton S. McCarl

*How the changing times in  
two industries collide to help  
today's dentists*

For more on this topic, go to [www.dentaleconomics.com](http://www.dentaleconomics.com) and search using the following key words: *banking, Five Cs of credit worthiness, cash flow, loan portfolio, Dr. Clayton McCarl.*

Your relationship with your bank should add value to your business. Understanding how banks work and what's important to them will help you get what's important to you.

Dentistry has experienced a tsunami of technology changes and unless you are ready to retire now, you need to hop on board or be left behind. Digital X-rays and chair-side scanners, instead of elastomeric impressions, will soon go from state-of-the-art to standard of care.

Falling real estate prices may also offer an opportunity for practices to buy buildings at a discount. These and other capital expenditures will need appropriate financing from financial institutions.

The banking world has experienced a well-publicized tsunami of its own. Speculative investing and subprime loans have rocked the financial world. Banks are looking for stability from partners with dependable businesses and

a track record of success.

As a third-generation dentist, I know about the financial stability of dentistry. Dental practices have among the lowest failure rates of any business in the United States (less than 1% nationwide).

Dentists by nature are careful, organized, and methodical people. A dentist's dedication to the well-being of patients earns the community's trust.

Although no business is recession-proof, dental care is still valued and prioritized by the public. Bankers typically determine the value of a business by its hard assets and cash flow.

Dental practices are unique in that a greater value can be placed on earning potential. A license to practice dentistry has great value in and of itself.

The difficulty in obtaining that license restricts free entry into the field, and gives dentists an inherent advan-

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tage as compared to other industries that have open, competitive entry systems.

## **Banks seek credit worthiness**

Bankers speak of the “Five Cs” of credit worthiness when they evaluate a customer’s loan request. The first is always character of the borrower. It is considered before capacity, collateral, capital, and conditions. Are they honorable? Who knows this person and how is he or she viewed in the community? A trusted and respected member of the community will receive greater consideration than one who is not.

## **Bankers look at several key financial documents**

In addition to recent tax returns, you will be asked to submit an income statement or profit and loss (“what you make”) and a net worth or a balance sheet (“how much you are worth”). Some of the information you submit on these statements are modified or totally discounted behind the scenes by bankers.

For instance, you may think 25% ownership in a \$2 million multigeneration family vacation home adds \$500,000 to your net worth. But not in the eyes of a banker. Encumbered real estate and other illiquid assets are not easily accessible if problems occur.

## **Banks seek a diversified loan portfolio**

Individuals are always taught to seek a diversified investment portfolio, in case a particular sector of the economy has a downturn, all your eggs are not in one basket. Similarly, banks seek a diversified loan portfolio. They do not want excessive concentration in any single sector.

A successful dentist may approach his or her long-time bank for a loan to buy a building, only to be turned down. The dentist’s financials may be in order, but the particular bank may already have an excessive amount of business real estate loans in its portfolio. In other words, rejection may not be related to credit worthiness.

The answer: shop around. You will find banks that are not overloaded with business real estate loans that want

your business. Additionally, an owner-occupied commercial mortgage is much more attractive than one that is not occupied.

## **Your deposits are important to banks**

A full-service relationship is often an effective bargaining chip when shopping loan opportunities between banks. Banks need deposits as well as loans.

A full service relationship may include deposits, checking, a line of credit for cash flow management, and a credit card account for purchases and receiving patient payments.

A bank may lower the rate on a loan to get a full-service relationship. Your existing bank may also lower the rate or make a loan it does not want if faced with losing that full-service relationship.

If a bank really wants this type of relationship but is top-heavy in that loan type, it will make the loan and “participate” or sell it to another bank without your knowledge. Just because your payment goes to “Bank A” doesn’t mean this bank actually owns the loan.

## **If a big bank takes you for granted — go small**

Like other businesses, banks have their VIP customers, and just because they put the word “premier or preferred” in front of your account doesn’t mean you are on their “A list.” If your bank is so large that your business flies under its radar, consider switching to a smaller community bank.

There are advantages to being a big fish in a small pond. The response time for requests will be much faster. You will have easier access to decision makers and not to someone near the bottom of the process. A dental office may be a small account to a large national bank but a significant customer to a community bank.

With the growth of remote deposit capture scanners, your daily deposit does not need to be dropped off at a branch, so the advantage that big banks have in number of branch locations is reduced. A dental office account is significant enough to a small bank that it may install a scanner in your office at no charge. The daily deposit drop to the bank has become a thing of the past.

Make sure your bank is giving you the service and products you deserve from the business you give it. Like any relationship, go for the win-win. **DE**

*Dr. Clayton S. McCarl Jr. is a director on the board of Revere Bank. He practices dentistry with his brother, Dr. Jay McCarl, his cousin, Dr. David McCarl, and associates. The McCarl Dental group is a third-generation dental practice with two dental offices in Greenbelt and Millersville, Md. For more information, contact Dr. McCarl at (301) 474-4144, by e-mail at [cmccarl@comcast.net](mailto:cmccarl@comcast.net), or on the Web at [www.mccarldental.com](http://www.mccarldental.com).*



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