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Financing a practice

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Financing a practice

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Doctor of Optometry

by

Kelland T. Davis

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INTRODUCTION

The purpose of this paper is to inform optometry students on the basics of borrowing money. Borrowing money is usually necessary to fulfill career goals, but aside from low interest educational loans, the majority of optometry students have little finance experience.

At one time, securing a loan was no problem for the new doctor, but current economic trends have changed this considerably. High inflation, coupled with record high interest rates, have produced a climate of tight money. Lending institutions are more cautious and conservative with their funds and it is becoming increasingly difficult for new optometry graduates to acquire a loan.

This problem has deeper implications than simply fewer grads getting start-up loans. The tighter money policy is forcing more and more new O.D's. to begin their careers as employees rather than owners or part-owners of a practice. Some of these graduates are fortunate to locate practice opportunities that lead to ownership, but others are forced to work for the conglomerate commercial firms. This trend is growing and could ultimately alter optometry as we know it today. Industry, and not the profession, could possibly dictate how optometry is practiced.

Private practice is the goal for most optometry students and as stated previously, getting started usually entails borrowing money. Whether buying equipment to start cold or seeking funds to buy a practice, your loan is going to be for a considerable amount of money and the graduate should have some knowledge about loans. This knowledge will not only enhance the chances of acquiring a loan, but could also save the new doctor a considerable amount of money.

I begin my thesis with a survey of the graduating class of 1981. The survey was conducted in November of 1981 and the results revealed interesting financing trends and problems experienced by these graduates.

The second part of my paper deals with loans in general and describes features to look for when shopping for a loan. Topics considered here include, annual percentage rate, collateral, cosigners and Truth in Lending Regulation.

The third part of my paper is devoted to the preparation of the loan proposal and presentation. It is an in-depth description of what is needed for a good proposal and how to make an impressive presentation.

The last part of my thesis is devoted to various lending institutions that the new optometry graduate can approach when seeking a start-up loan. The following lending institutions are discussed: (1) banks, (2) savings and loans, (3) ophthalmic equipment dealers, (4) finance companies, (5) credit unions, (6) insurance companies, (7) Western Financial Capital Corporation, (8) Small Business Administration, and (9) leasing companies.

With the information presented, the new graduate should be able to construct an attractive loan proposal, make an impressive proposal presentation and hopefully secure a good loan which will enable the fulfillment of private practice goals.

THE SURVEY

The survey consisted of ten questions and was mailed to the 1981 graduating class of Pacific University's College of Optometry. This population was chosen because their responses would reflect the most recent financing climate. The survey was sent six months after graduation, which allowed sufficient time for the majority of the class to make their practice arrangements. A return date of ten days after the approximate time of receipt was indicated on the survey. To ensure a favorable response, a self-addressed, postage paid return envelope was enclosed. A sample of the survey is on page 4.

The survey's questions were short and simple and required less than five minutes to answer. Question number one queried the graduate about his approach to financing his equipment, practice or associateship. The various lending institutions were listed and he or she simply checked the appropriate box. Questions two through nine dealt with the various terms of the loan. Question ten asked for any additional details or suggestions about the graduate's financing experience.

THE RESULTS

Of the 84 surveys sent out to the recent graduates, 45 returned the questionnaire, giving a 53% response rate. Of the 45 returned, 24 indicated that their form of practice required no financing and that the survey was not applicable to them. Various reasons were given, and these are shown in Table 1.

RECENT GRADUATE SURVEY

As part of my senior thesis project I am gathering information concerning methods of obtaining start-up loans for new graduates. I would appreciate you sharing your practice financing experience in a simple survey. You need not sign the questionnaire as your responses will remain anonymous.

1. What approach did you use to finance your equipment, practice or associateship?
   - ☐ Local banks
   - ☐ Financing provided by associated practitioner
   - ☐ Ophthalmic equipment dealers, distributors or manufacturers
   - ☐ Office equipment/expenses provided (Pearl, Searle etc.)
   - ☐ Western Financial Capital Corporation
   - ☐ Credit Unions
   - ☐ Insurance companies
   - ☐ Savings and Loans Associations
   - ☐ Relatives
   - ☐ Other ______________________
2. What was the amount of your loan?

☐ 0-$25,000	☐ $75-$100,000
☐ $25-$50,000	☐ $100-$125,000
☐ $50-$75,000	☐ greater than $125,000

3. What was the interest rate of your loan? ______________
4. Was it a floating rate loan? ☐ yes ☐ no
5. How does this rate fluctuate? ______________________
6. Was collateral required? ☐ yes ☐ no Was a co-signer required? ☐ yes ☐ no
7. What is the period of the loan? ______________
8. What are your monthly payments for this loan? ______________
9. How long did it take to process the loan? ______________
10. It would be very helpful if you would supply any additional details or suggestions about your financing experience.

____
____
____
____
____
____
____

Thank you very much for your responses.

Sincerely,

Kelly Davis
Pacific University
College of Optometry

Please return by NOVEMBER 20

Table 1

"Not Applicable" Responses to Survey

Responses	No.
Working as an employee	7
No reasons given	4
Military duty	3
Teaching	2
No final practice arrangements	2
Partner in father's practice	1
Continuing education	1
Working as an employee on a trial basis	1
Hasn't started practice - having a baby soon	1
No down payment was required for associateship	1

Twenty-one of the graduates who returned a questionnaire indicated that their practice arrangements required some form of financing. A question-by-question account of their responses follows.

Question one asked what approach the new graduate used to finance his/her equipment, practice or associateship. The twenty-one responses were varied and more often than not, combinations were frequently used. The question's various replies are listed in Table 2.

As noted from the table, the most frequently used method of financing was through the associated practitioner with 13 of the 21 responses. Local banks, with 9 responses, were second. It is significant to note that financial arrangements made with local banks and the associated doctor was the most frequent combination. In this arrangement the bank was used as a source for the down-payment and the balance of the loan was carried by the practitioner.

TABLE 2

Responses to Question 1: "What approach did you use to finance your equipment, practice or associateship?"

Survey Response Response from Graduate No:	Local Banks	Financed by Associate	Ophth. Equipment Dealer	Commercial	Western Finance Capital Corp.	Credit Unions	Insurance Co.	Savings & Loan	Relatives	Other*	*"Other" Specified
1	X*									X	*Located by Prof. Practice Specialty Investment Firm
2	X	X								X	Seller O.D. is carrying contract
3	X								X		
4	X	X									
5	X*	X									*Borrowed for down-payment
6	X	X	X								
7	X	X	X						X	X	Had some money of his own
8	X	X									
9		X									
10		X									
11		X	X								
12		X							X		
13		X							X	X	Own resources
14		X									
15	X	X							X		
16								X			
17								X			
18					X						
19					X						
20									X		
21				X							

Six responding graduates were fortunate to find financial help from relatives and three borrowed through equipment dealers or manufacturers. Two new O.D's. used savings and loans as a money source, and two used the Western Finance Capital Corporation or W.F.C.C. W.F.C.C. is a new finance company created specifically to aid new optometric graduates. It was founded by a group of optometric educators and Dr. Fred Rosemore, O.D., a recognized financial expert. Three graduates said they used their own savings in financing their practice, and one new doctor reported that he rented space from a commercial optical company and that no loan or financing was required.

Question 2 inquired as to the amount of the loan. The responses are tabulated in Table 3. As shown by the Table, the amount of money financed varied considerably. Six of the graduates limited their indebtedness to under $25,000. Five of the responding grads indicated the amount financed was between $25,000 and $50,000. Three thought between $50,000 and $75,000 would get them started, and another three borrowed between $75,000 and $100,000. Two confident grads are borrowing more than $125,000. One of these brave souls is "going for it" and financing a quarter of a million dollars! Graduate No.1 received the largest loan from a bank or savings and loan, borrowing between $75,000 and $100,000. Most of the graduates who used a combination of loans failed to indicate the amount of money borrowed from the different lending institutions.

Question 3 of the survey asked the interest rate of the loan. Question 4 asked if it was a floating rate loan, and Question 5 asked how the rate fluctuated. Because the questions are related, the responses are tabulated together in Table 4.

TABLE 3

Responses to Question 2: "What was the amount of your loan?"

Grad. No.	Amounts in thousands $0-25	$25-50	$50-75	$75-100	$100-125	>$125	Remarks
1				X			
2		X*				X*	*Bank $0=25 Seller contract >$125,000
3			X				
4		X					
5		X					
6			X				
7	X						
8	X						
9						X*	*$250,000
10				X			
11	X						
12	X						
13	X						
14							To be arranged
15							No loan taken
16		X					
17			X				
18		X					
19			X				
20	X						
21							Not applicable

TABLE 4

Responses to Questions 3, 4 and 5

Grad No.	3. Interest rate of loan	4. Floating Rate?	5. How does this rate fluctuate?
1	Prime plus 2% (Bank)	Yes	Maximum 2% per year fluctuation
2	21% (Bank) 12.5% (Associated)	No	
3	18.5% and 18% (2 different banks)	No	
4	A: Prime +1.5% (Bank) B: Prime -4% (Seller)	Yes	A: Adjusted monthly B: Adjusted yearly never less than 12%
5	20% (Bank)	No	
6	12% (Associated O.D)	No	
7	Some @ 10% (Equipment) 21% (Bank)	No	
8	7% (Associated O.D)	No	
9	10% (Associated O.D)	Yes	Only decreases if prime decreases. Will not rise
10	0.75% x prime	Yes	With prime
11	Unknown - Equipment Purchased	Through Bensons	Optical, payments deferred for 1 yr of interest - determined at that time
12	15% (Associated O.D)	No	
13	7-9% (Relatives - Associated O.D)	No	
14	To be arranged (Associated O.D)	No	
15	No loan	-	
16	15.5% (Savings & Loan)	Yes	Negotiated every 3 yrs.
17	18.5% (Savings & Loan)	No	
18	20.5% (W.F.C.C.)	No	Steady rate re-negotiated in 5 years
19	17.5% (W.F.C.C.)	No response	
20	No interest (Relatives)	-	
21	No loan (commercial)		

The reader will note that the interest rates of the bank loans were between 18 and 21 percent and were closely tied to the prime rate. The prime rate, incidentally, is that percentage applied to loans made by commercial banks to their most creditworthy corporate customers. The rate is quite sensitive in response to cyclical economic conditions and can fluctuate greatly. Interest rates on loans made by the associated practitioners were found to be much lower; in fact, in one instance the interest rate offered by a practitioner was one-third that charged by one of the banks. Of particular interest is the two different rates charged by the Western Financial Capital Corporation. The subject of interest rates and their importance will be discussed later.

Question 6 asked if collateral or a co-signer was required. The responses to this question are shown in Table 5, with the respective graduate number, loan amount, and lender.

From this Table we see that most of the loans from banks and savings and loans required a co-signer. Some of the lending institutions wanted collateral in conjunction with a co-signer. Graduate No.1, however, managed to borrow between $75,000 and $100,000 without either of these. Except for the new O.D. who was buying the $250,000 practice, most financial agreements with associate practitioners required no co-signer or collateral.

Question 7 asked the period or term of the loan, and Question 8 asked the amount of the monthly payments. The responses to these questions can be found in Table 6. Also listed are the amounts borrowed and the associated interest rates.

TABLE 5

Responses to Question 6: "Was collateral or a co-signer required?"

Grad No.	Financing Source	Amount	Collateral?	Co-Signer?
1	Bank	$75-100	No	No
2	Bank and seller	>$125	Yes	Yes
3	Bank	$50-75	Yes	Yes
4	Bank and associate	$25-50	Yes	Yes
5	Bank	$25-50	Yes	Yes
6	Bank, associate, Equip.Dealer	$75-100	No	-
7	Bank, associate, Equip.Dealer	$0-25	No	No
8	Banks, associate	$0-25	No	No
9	Associate	$250	Yes	No
10	Associate	$75-100	No	-
11	Associate, Equip. Dealer	$0-25	-	-
12	Associate	$0-25	No	No
13	Associate	$0-25	No	No
14	Associate	-	-	-
15	No loan	-	-	-
16	Savings & Loan	$25-50	No	Yes
17	Savings & Loan	$50-75	Yes	Yes
18	W.F.C.C.	$25-50	Yes	No*
19	W.F.C.C.	$75-100	Yes	Yes
20	Relatives	$0-25	-	-
21	Commercial	None	-	-

Amounts in thousands

*W.F.C.C. told graduate 18 that they would have given her the loan with a co-signer instead of collateral if she was unable to supply the necessary amount.

You will note that most of the loan periods are for less than ten years. These short terms, coupled with high interest rates, can produce "healthy" monthly payments, as seen by the figures for graduate No.1.

TABLE 6

Responses to Questions 7 and 8 which asked: "What was the period for the loan?" and "What was the monthly payment?"

Grad No.	Amount*	Interest Rate	Question 7 Term?	Question 8 Monthly Payment?
1	$75-100	Prime + 2%	6 years	$2,500
2	$0-$25 >$125	21% 12.5%	4 years 15 years	$225 $1,540
3	$50-75	18.5% 18.0%	5 years 6 years	$500 $900
4	$25-50	Prime + 1.5% Prime - 4%	7 years 7 years	~$600 ~$523
5	$25-50	20%	7 years	$688
6	$75-100	12%	7 years	~$1,150
7	$0-25	Some @ 10% Some 21%	Revolving 3 years	$90 if balance is <$2,000?
8	$0-25	7%	10 years	$233.22
9	$250	10%	10 years	$3,300
10	$75-100	3/4 x Prime	4 years	$1666 + interest
11	$0-25	-	5 years	-
12	$0-25	15%	4 years	$984.53
13	$0-25	7-9%	7 years	Varying $150-600 with time
14	-	-	-	
15	No loan			
16	$25-50	15.5%	20 years	$555
17	$50-75	18.5%	15 years	$807
18	$25-50	20.5%	20 years	$657
19	$75-100	17.5%	20 years	$1,200
20	-	-	-	-
21	-	-	-	-

*Amounts in thousands of dollars

Grads 16 through 19 used savings and loans or the W.F.C.C. for their financing and were permitted longer payback periods.

If you play with the figures for graduate number nine, you will find that he will end up paying $396,000 for his practice. He was fortunate to get 10% financing through the seller. If he had to pay 20% interest like some of his classmates, the total would have exceeded a half-million dollars.

Question 9 asked how long it took the various lending institutions to process the loan. Table 7 shows that the banks and savings and loans were relatively quick, taking on the average about two weeks to process the loan. Western Finance Capital Corporation, on the other hand, took much longer. One new O.D. waited seven weeks for money from this organization and another waited three months.

Question 10 asked the graduate to supply any additional details or suggestions about their financing experience. The verbatim comments are found below. I think you will find them interesting and informative.

Graduate No.1 - "Coming out of school with no equity, it's very difficult to finance a business loan. I highly recommend acquiring the services of an investment firm. They prepare your loan proposal as well as find a local bank to provide the loan. It's well worth the $2-3,000 service fee. If they tell you it won't work, you'd better take a closer look, they are the professionals when the subject is finance."

Graduate No.2 - "When buying a practice get seller to carry as much as you can. Apply to more than one bank. Do not tell the bank you are financing a down payment. (Say - 'Working capital, equipment, improvements')"

Graduate No.4 - "Practice was $75,000, no down payment, at 12% over seven years. $20,000 was borrowed from a combination of labs and banks. The $20,000 was for adding some new equipment, operating costs, and some redecorating. It also served as some sort of security for the optometrist since I didn't have a down payment."

Graduate No.6 - "It is very difficult to get money without a co-signer, or a lot of collateral."

Graduate No.7 - I have a good credit background, but no security to pledge. Because of the background, I got what I needed quickly, to borrow more would have been a problem. My folks are loaning me $10,000 for however long I need it at ∿10% interest. It cost me ∿$4,000 to get started without much equipment, because my associate has enough to get us by for now. After the first of the year, we will become partners and then I'll give him a down-payment and assume a greater share of the practice payments over five years until we are equal partners."

Graduate No.9 - "Not completed with negotiations yet. He is buying more equipment I require (i.e., biomicroscope). Trial period now and I am being paid $20 per exam and after purchase I pay him $20 per exam for patients that want an exam by him only. He will be available for two years.

Graduate No.10 - In this Canadian province, selling figures for practices range from last year's net to last year's gross. Our net figure was net plus inventory plus depreciated value of equipment plus accounts receivable - accounts payable. With fluctuations in interest rate, prime was over 20% at outset therefore settled at 3/4 prime. Must have trust (ensure) with associate and accountant(s)."

Graduate No.11 -"Purchased equipment through Bensons Optical in Salt Lake - who defers payments for one year and interest is determined at that time."

Graduate No.12 - "I worked out a deal where the doctor did all the financing (he makes all the interest money instead of the bank). I only needed a 'loan' from my folks to serve as the down-payment and 'working capital' ($7,000)."

Graduate No.16 - "Finance through an institution that knows you personally. If they are not familiar with your character and/or credit history the red tape and collateral required could make financing very difficult."

Graduate No.18 - "We could easily have borrowed money from local banks but the loan would float - tied to prime - and the best we could get was a ten year loan with interest that would float from 16-25%. W.F.C.C. would have given us the loan with a co-signer instead of collateral if we had not had sufficient collateral. We had been told that the loan would take ten days to process, but it did take seven weeks."

Comments of a graduate who works as an employee:

"No start-up loan required. I joined a practice as an employee. All equipment was supplied and my expenses were paid by the corporation. I'm being paid a very good salary for the first year out and gaining much business experience at the same time. Starting a practice cold this year would have required too much and money was too expensive. I would recommend working towards a partnership instead of starting cold or buying an existing practice."

LOANS IN GENERAL

Introduction

Starting an optometric practice or buying an established one is an expensive venture. The survey indicated that anywhere from $10,000 to $250,000 may have to be financed. This is a significant expense even to those who have substantial savings. In many instances, the new graduate is already in debt because of educational costs. Therefore, having to borrow additional funds to get started usually poses a major problem.

Obtaining professional financing at one time was not difficult. As a doctor, you were near the top of the list as a desirable credit risk, and start-up loans were usually no problem. The recent economic conditions, however, have changed the financing climate dramatically and everyone has been affected. Inflation, coupled with record high interest rates, have produced an era of "tight money." Financial institutions are receptive to loan applications when the economy is good, but when inflation hits full force, then lending institutions become more cautious and conservative. Large loans are necessary for many to fulfill career goals. The amount of the loan must be increased with increases in inflation and there are greater risks as well.

This larger loan and the higher interest rate makes loan repayment a struggle and sometimes an impossibility. Many new O.D's. have been forced into bankruptcy when they could not meet the high payments.

Loan Types, Terms and Consequences

There are a multitude of potential sources of loans for the new doctor and a thorough knowledge of the most common types, terms and consequences will enable the new doctor to make the choice that best suits his or her needs.

Large loans to new graduates are usually installment loans, to be repaid over a period of time. The credit contract signed is often called an installment note or promissory note. Either the loan contract itself or a separate document must inform you as to the finance charges you will pay, the amount and due dates for your payments, and other pertinent information you will need to know.[1] This information is insured by the Truth and Lending Act of 1968. The most important section of the Act is that dealing with the determination of finance charges. Prior to the Act's passage, thousands of borrowers and purchasers of merchandise on credit had been kept in the dark as to the true or actual interest rates they were paying.[2] The interest was often hidden in the fine print of the contract and usually the lender made no effort to enlighten the borrower about the details. Thanks to the Truth in Lending regulation, each company must now spell out its interest charges, which are usually expressed as A.P.R. or Annual Percentage Rate.

The Annual Percentage Rate is the cost of credit per year and the lowest A.P.R. for equal dollar amounts and repayment periods will be the best value on credit. When shopping for a loan, always compare the A.P.R's. quoted by the different creditors for the same term. The savings can be substantial.

Although the A.P.R. is your basic clue to the cost of your proposed loan, and should be used as your measure when shopping around, there are other factors which have to be considered when computing the cost of a loan. In addition to the interest rate, finance charges can include loan fees, finder's fees, service charges, points (percentage amounts deducted from the principal amount of a loan that - in effect - raise the A.P.R.), investigation fees and premiums for life insurance. In such cases, your creditor must itemize each and sum them together when quoting you the finance figure.[3] Some lending institutions simply charge one or two percent of the loan amount to cover these charges. Anyway, you should be aware of your charges. You wouldn't buy something without checking the price tag first, so when shopping for a loan investigate the finance fees thoroughly.

Processing time is another important factor to consider when shopping for a loan. Long delays in receiving loan proceeds can affect purchase negotiations. One graduate informed me that he lost the opportunity to buy a practice simply because the lender was 'slow in processing his loan and someone came up with the money before he did.' One survey respondent indicated she waited seven weeks for her loan to be processed, and delays of three to four months are not uncommon when working with the Small Business Administration.

There are basically two types of loans, secured and unsecured. Essentially, a secured loan requires you to offer some property as collateral and the unsecured loan does not. As a new O.D., some lending institutions will loan you $60,000 or more on an unsecured note, but others are prohibited by State law from making unsecured loans. To borrow for the purchase of a practice you may be asked to put up the practice itself as collateral.

If you have not established a credit history or have nothing of value to be used as collateral, you may be required to have a co-signer. In effect, a co-signer, or guarantor, agrees to pay back your loan if you fail to do so. The co-signer's credit record is thoroughly checked before his signature is accepted as a guarantee. Although the survey revealed that most loans from commercial lenders required co-signers, some did not, and this is an extremely important factor to consider when shopping for a loan. Putting your parents' house on the auction block and losing the "old home place" is a very real possibility. Shop around and avoid the co-signer agreement if possible.

When shopping for money, you are also interested in several other features. It is advantageous to find a loan with a six month grace period (you don't make any payments for the first six months), and a long term, preferably seven years or longer. Other features to look for include: determining that interest is paid only on the balance of the principal and that you have an option to withdraw the loan funds as they are needed, rather than in a lump sum initially.[4] Proper management of various aspects of loan provisions can lead to better asset protection and significant savings in interest charges.

Preparation of the Proposal and Presentation

The old adage "prior preparation prevents poor performance" couldn't be more true than when it comes to acquiring a business loan for a large amount of money. There are many people who have the desire, talent, and expertise to either operate on their own or expand their present operation, but lack the proper techniques necessary to secure financing. That which would otherwise be considered a "good" loan, may often go by the wayside; not because the potential borrower isn't qualified, but because the loan proposition that was presented did not include essential information or the presentation was poor.[5] Loan officers are very busy with requests for financing and valuable time is wasted on applications that lack the information necessary for them to make sound business decisions. Your loan presentation is weakened and a great deal of time is lost if many return trips to the lending institution are required. Getting everything together correctly the first time around is impressive and lessens the chance for rejection.

The bankers I interviewed stressed the importance of a well prepared, detailed, businesslike presentation. First impressions are extremely important here, so you better be prepared and have your 'act together'. I recommend investing $500 in a good wardrobe before you start making your presentations. You would eventually need a fine quality suit anyway, so you might as well buy it now; it can be used to enhance this first impression.

To get an idea of the type of clothing men should wear, I strongly recommend the book "*Dress for Success*" by John T. Molloy. It not only tells you what to wear, but is also extremely interesting reading.

Molloy's general rule is to dress conservatively because it is less likely to offend anyone. A three-piece suit with a white shirt and a nice tie is preferable to a sport coat and slacks. The traditional colors are grays, blues and dark browns, and you should avoid anything flashy in design or color. Also, a well trimmed mustache is O.K., but beards should be shaved. Don't carry pens in your outside suit pocket and avoid busy patterns in your shirt. Stay with the classics. Wear solid color or rep ties only; no bow ties.

Unfortunately, a similar book does not seem to exist for ladies to read. However, I recommend that women also invest in fine apparel. The business woman's attire is 'in' for this occasion. Women should wear suits, but not pant suits. They were popular about seven years ago, but are out altogether today. Dresses are acceptable, but they should have simple, classic lines. Solid colors are preferable to prints and darker tones to brights. Avoid skirts with large slits in them. Keep cologne or perfume to a minimum and classic shoes are preferable to high heels.[6] Avoid clanky jewelry, such as charm bracelets. Also, don't try to carry a purse and a briefcase; it's awkward.

Quality clothing will not only make you look more attractive, but will also enhance your self-confidence. A fine suit of clothes will not guarantee success, but poor taste or poor clothing could prevent you from getting a loan.

After you have prepared your proposal, which I will describe in length shortly, polish your presentation so it is smooth and convincing. Get your cassette deck out and tape your presentation in front of a mirror or if possible before a friend. Get the bugs out now, because when the actual interview appointment arrives, the banker will observe you, and you should sound confident and determined.

Another bit of advice. Do not go in the loan manager's office with your knees bent and begging. Assume the attitude that you are an asset to the community and will be a business draw. Banks and other institutions have to loan a certain amount of money to make money so convince the lender of your importance to the community and that the two of you will grow together.

THE LOAN PROPOSAL

The loan proposal is a well prepared, concise, informative and organized package used to obtain financing for a particular project.[7] Not only is it informative to the lender, but it is even more beneficial to the borrower. Many businesses fail due to inadequate planning initially. The information gathered by preparing a well constructed financial proposal will help ensure the success of the venture and avoid the awesome responsibility of default.[8]

The proposal is an organized approach to determine the feasibility of the project and the probability of success or failure. The information available to the borrower and the lender will hopefully pinpoint possible risks and pitfalls before they lead to disaster for both parties.

The proposal package consists of several items and the following guideline will aid the borrower in organizing a proposal.[9]

1. Subjective essay
2. Resume
3. Equipment inventory
4. Schedule of capitalization
5. Project cost sheet
6. Proforma
7. Competitive comparables
8. Contingency plans
9. Financial statement
10. Summary
11. References

1. Subjective Essay

The subjective essay describes the purpose of the loan. Although you will most likely be presenting your proposal to only one or two professional loan officers at a time, the usual procedure for determining the feasibility of a project is to put the proposal before a loan committee at most lending institutions. To avoid the possibility of redundant questioning, the essay should provide as much information as possible to answer the majority of questions that will be asked by each respective board member.

The beginning section of the essay should explain what you are trying to do. A description of your experience and education that qualifies you to undertake the responsibility of the financial obligation and management of the operation should follow. You should also include new concepts you plan to instigate or plans to duplicate a successful operation that is already in existence. An analysis of the location and details of the lease must be presented. Also include future expansion plans, equipment needs, and promotional ideas.[10]

Lenders are very knowledgeable professionals when assessing financial requests. The total amount of the project should be consistent with the supporting statements. The amount of financing you request must be realistic and should be stated with the terms and conditions that reflect the practice's ability to repay. Needless to say, the essay should be well written and concise.

2. The Resume

Although the new graduate often feels his newly acquired 'O.D.' should suffice for credentials, it is difficult for a lending institution to grant a loan to someone who has very little, if any, business experience or to someone not known to the lending firm. The resume not only introduces you, but acquaints the lender with your accomplishments. In essence, it is a chronological account of your life's experiences that qualify you to take on both the obligation of the loan and management of the venture.[11]

The resume is extremely important because it allows you to sell yourself. Aside from the brief interactions with the loan officers during your proposal presentation, you are given few opportunities to do this. Despite a dull childhood, blue collar jobs before school, and B.S.K. overlooking you, you can still appear impressive. Be honest but accent the positive traits and experiences in your life which enhance the probability of you becoming a successful optometrist.

3. Equipment Inventory

This is simply a list of all the prospective purchases of equipment that you will need to begin operation if starting a completely new practice. It is important to get quotes from as many instrument suppliers as possible. The list should include at least three quotes from different dealers on the identical equipment.

The purchase of professional equipment ideally should take one-third or less of your capital (loan), and the other two-thirds should be tagged for office equipment and supplies, as well as day-to-day operating capital.

If you keep your loan requests reasonable ($25,000 to $40,000) you will have fewer problems. Be reasonable when designing your office and don't over-indulge. Buy used equipment when possible.

4. Schedule of Initial Capitalization

This sheet simply indicates where the start-up money originates, from savings, parents, a lender, etc.

5. Project Cost Sheet

This is an itemized list of start-up costs, broken down. It is essential to separate these costs so that the lender will know where the money is going and to ensure that nothing is overlooked. It is imperative that this portion of the proposal be very accurate, since most business failures are due to inadequate financing.[13] The itemized sheet should be broken down into the following areas: land, buildings (or lease improvements), equipment, furniture and fixtures, set-up costs, advertising, frame inventory, miscellaneous costs, and working capital. After the financing is secured, the cost sheet can be used as a budgetary control.

6. Pro Forma

The pro forma is in essence an income statement for the future operation of the practice. Many assumptions must be made, but this analysis will provide you and the lender with a probability of whether the project will or will not be successful. It is a very valuable tool and must be constructed using values and amounts that are as realistic as possible. Estimates of fees and material costs can be obtained from practitioners in the area or from current optometric journals that frequently conduct surveys about these values. Usually the pro forma is a chart, detailed month by month, for the first year, but some lenders require a cash flow for the entire length of the loan. The chart will show you and the lender at what point you will break even and start showing a profit. A typical pro forma is shown on page 26. In your

ESTIMATED CASH FLOW STATEMENT FOR FIRST YEAR

Month	1	2	3	4	5	6	7	8	9	10	11	12
Note	476	476	476	476	476	476	476	476	476	476	476	476
Lab (Ophth)	468	468	500	500	510	532	553	624	644	866	688	709
Lab (C.L.)	234	234	250	250	255	266	276	312	322	333	344	354
Wages	400	400	400	400	400	400	500	500	500	500	500	500
Payrole Tax	56	56	56	56	56	56	75	75	75	75	75	75
Prop. Tax	30	30	30	30	30	30	30	30	30	30	30	30
Off. Supp.	50	50	50	50	50	50	60	60	60	60	60	60
Rent	600	600	600	600	600	600	600	600	600	600	600	600
Utilities	60	60	60	60	60	60	60	60	60	60	60	60
Repairs	50	50	50	50	50	50	50	50	50	50	50	50
Insurance	50	50	50	50	50	50	50	50	50	50	50	50
Legal	-	-	-	-	-	-	-	-	-	-	-	-
Accountant	30	30	30	30	30	30	30	30	30	30	30	30
Auto	50	50	50	50	50	50	50	50	50	50	50	50
Travel	-	-	-	-	-	-	-	-	-	-	-	-
Entertain.	-	-	-	-	-	-	-	-	-	-	-	-
Phone	40	40	40	40	40	40	40	40	40	40	40	40
Dues	20	20	20	20	20	20	20	20	20	20	20	20
Subscrip.	-	-	-	-	-	-	-	-	-	-	-	-
Lease Improv.	100	100	100	100	100	100	100	100.	100	100	100	100
Bank Chgs.	5	5	5	5	5	5	5	5	5	5	5	5
Refunds	20	20	20	20	20	20	20	20	20	20	20	20
Advertising	20	20	20	20	20	20	20	20	20	20	20	20
Other	20	20	20	20	20	20	20	20	20	20	20	20
Total	2745	2745	2957	2957	2972	3005	3155	3262	3292	3525	3358	3389
Fees	2340	2340	2496	2496	2552	2658	2764	3120	3226	3332	3438	3544
Net Income (or Loss)	(405)	(405)	(461)	(461)	(420)	(347)	(291)	(142)	(66)	7	80	155

list of expenses don't forget to include your loan payments. Only the interest is a deductible tax expense.

7. Personal Cash Flow Statement

A personal cash flow is also required by some lenders. Details of the borrower's household expenses are not only valuable to the lender, but this estimate also assists the new graduate in assessing all obligations. With college loans coming due, this expense estimate indicates the full impact of these expenses.

8. Competitive Comparables

Unless you are the only eye care practitioner in town, competition may very well be your biggest problem when starting cold. Your competition is established, and since you are the new optometrist in town, the lender will want to know your anticipated source of patients. Best clues to your competition's practice volume will come from the various lab representatives serving that area. They are usually more than happy to discuss practice potentials. Your report may also contain demographic surveys from a Chamber of Commerce or long range water and utility projections showing future potential drawing areas. The electric and telephone companies also make elaborate projections.

9. Contingency Plans

The lender reviewing your proposal is primarily interested in one thing - getting his money back, plus compensation for risk. Although you have constructed your proposal as realistically as possible, that dynamic personality of yours just might not attract the six new patients per day you had anticipated, and repayment could become difficult.

The contingency plan section of your proposal is important because it describes income alternatives available to you. Alternatives you might mention include: (1) working for a Health Maintenance Organization on the side, (2) working for another doctor in another town, (3) getting a paper route, or (4) putting your spouse and children to work.

10. Financial Statement

Often the key to approving or denying an individual loan is the person's financial statement. On the basis of this information the lender can discover possible ways to grant credit to the loan applicant. The financial statement is simply a listing of any assets and debits the borrower might have at a particular date. For example, the borrower might have stocks or bonds that could be used for collateral. Also, don't forget the cash value of your life insurance.

Now another note which may sound dishonest, but is suggested by Dr. Panela Joyce Miller in her 20/20 article, "*What Optometric Schools Don't Teach You About Business*." If you are simultaneously borrowing from two different lending institutions, do not relay this information to each other or you will be penalized for being honest. When you run your loan applications through at the same time, technically neither will show as a debit on your net worth statement.[14]

11. Summary

The summary to your proposal is also very important. Your previous work has been devoted to gathering information for the lender to analyze. You have bombarded the lender with thousands of facts and the lender must compare the positive and negative aspects of your proposal. It is the purpose of the summary to highlight these positive points - the advantages, techniques and resources that will make your practice successful.

12. References

Unless you are pretty well known to your lender, you will be required to furnish references. Simply provide them with the names, addresses and telephone numbers of your friends, former employers or associates, attorney and accountant.

Lending institutions are not going to make loans to complete strangers. They are going to check you out closely. They will verify the many schools you list on your loan application and some will even inquire about your character through your personal files at school. I strongly recommend that you read your personal file before leaving school. Should there be any discrepancies recorded about your character, it is much easier and cheaper to rectify the problem while you are at school, rather than over the telephone from Denver or Honolulu.

Have your proposal typed on quality paper and bound in an attractive cover. Once your proposal is in order, you can set up an interview with the banker or lending manager. Always speak to the manager, never the second-in-command. Telephoning to set up an interview in advance is always a wise business courtesy.

MORE ABOUT LENDING INSTITUTIONS

Banks

When seeking a bank loan to purchase an existing practice or equip a new one, probably your best lending source is the bank where you have established a relationship through checking and savings accounts or previous loans.[15] If the bank is not familiar with your character and/or credit history, the red tape required often makes financing much more difficult.

If you do not have a bank with which you have established a relationship, then choose one in the community you plan to serve. The banker there can not only help you financially, but can advise you as to whether your choice of location is a feasible choice. The local banker would know about future city expansion, or undesirable parts of the town that could affect where you might choose to practice.

Another fact to consider is that the bank that grants you your loan is going to expect you to do all your banking with them. The banker you choose will be instrumental in many of your future business dealings, so if possible choose your banker with care. Ask other professionals in the community who their banker is and the reasons for their choice.

Banks vary in their loaning policies. I investigated the professional loan programs of several banks in the Portland area and found an interesting trend; the larger bank corporations, with their many branches, were usually much more liberal with their loans than the small local banks. For example, let's compare the banks of Forest Grove.

When I approached the First National Bank of Forest Grove, a small local institution, I found their loan terms for beginning professionals very conservative. "Secured loans" were their policy, which required co-signers or collateral on all major loans.

On the other hand, First Interstate Bank of Oregon, a branch bank, had a great program for new graduates. Their loan policies permitted signature loans in excess of $60,000 for equipment. The interest rate was 20% simple fixed rate interest (as of January 25, 1982) and the bank charged an additional 1 or 2 percent finance charge, depending on the applicant's previous banking with the institution. The bank also permitted loans up to $5,000 for operating expenses.

This bank's loan policy was very unusual because no loan proposal was necessary and it had so few requirements. The requirements were as follows: (1) Financial Statement, (2) two letters of recommendation, one from the applicant's professional school and one from another professional, (3) deposit account, (4) an Assignment of Life Insurance Policy with a face value worth the amount of the loan, and (5) a lien on the purchased equipment. The loan also required extensive insurance coverage, including income replacement, malpractice, fire and extended insurance on the furniture, fixtures and office equipment. First National Bank of Forest Grove required the usual Pro-Forma type of proposal. First Interstate's maximum loan term was seven years and they permitted the first payment to be deferred for six months.

The amount banks charge on installment loans varies depending on the purpose of the loan, the current economic conditions, and whether it is secured or unsecured. Before the economy was so unstable, banks usually issued loans at a fixed interest rate, but now the majority are of the floating rate variety. Presently the rate is usually 2 percentage points above the prime rate. The lending institutions currently favor floating rates because they have lost money in the past with fixed rate loans. For example, if they approve a loan with a 10% interest rate and all of a sudden the prime rate jumps to 22%, they are stuck with an asset that is losing considerable money. Floating rates are good for bankers and other lenders, but they can be dangerous to borrowers.

If you are fortunate to have a healthy passbook or other savings account, you can use this account as collateral and most banks will give you a lower loan rate. For example, for a loan backed by a $5\frac{1}{4}$ percent passbook account you might be able to get an APR of 12 or 13% This is a great rate, but keep in mind that your money is tied up and generally high interest savings certificates cannot be used.[16]

One advantage to working with a bank is that the processing time for your loan application is relatively short in comparison to other lenders. If your loan proposal is well prepared, you should receive your money in a week or two if the loan is approved.

On the negative side, banks seldom have repayment terms longer than eight years. This creates large monthly payments that are difficult to handle when starting out. Some banks, though, offer a stair step payment plan, with small payments at the beginning and large payments later when you are more established.

SAVINGS AND LOAN ASSOCIATIONS

A savings and loan association is a locally owned and privately managed financial institution that exists to accept deposits on savings accounts from its members and make long term loans to them. They only accept savings from the depositors; they do not accept checking account funds.

Savings and loan associations specialize in mortgage credit (residential loans) but they can also offer consumer credit loans for the purchase of optometric equipment or the refurbishment of an optometric office.[17]

A savings and loan association can offer direct loans to depositors which are analogous to bank savings passbook loans. This type of loan allows you to borrow using a certain percentage of the amount you have on deposit as security. Your savings continue to collect interest while serving as collateral for your loan.

You might qualify for a loan for a practice purchase or ophthalmic equipment even if you do not have a savings account, but collateral will probably be required. If the loan is for equipment only, the savings and loan institution may consider a chattel mortgage on the equipment as sufficient collateral. Interest rates and finance charges are usually comparable with those offered by banks.

OPHTHALMIC EQUIPMENT DEALERS, DISTRIBUTORS OR MANUFACTURERS

During the third and fourth years of your education it is very likely that you will be contacted by representatives of ophthalmic equipment companies, distributors and manufacturers. These people are interested in your future business and working with them can be a good way to get started. Ophthalmic labs are especially eager to help you because they too are feeling the bite from commercial optical houses. If you are thinking of buying a practice or starting cold in an area, be sure to talk to the ophthalmic lab and equipment representatives serving that region. They are undoubtedly the most knowledgeable people you can talk to concerning the "health" of a prospective practice or whether a cold start is feasible in a certain location.

Most ophthalmic labs and distributors will give you a 10% discount on equipment and will have several finance programs available. Opticraft, in the Portland area, charges a 10% interest rate on the unpaid balance. They also charge a $25 handling fee and a $4 per month bank carrying charge. On page 35 are the financing agreements offered by Benson Optical Co., who have offices in most cities in the western United States.

Some ophthalmic equipment representatives may try to influence you toward the purchase of all new equipment. The temptation will be great but remember that good used equipment can be utilized for most all of your needs. Once established, it is easy to up-grade, but making big payments on all new equipment when starting out can be difficult.

FINANCE COMPANIES

The survey revealed that no one used finance companies for their financing and there are a couple of reasons for this. First, finance companies specialize in relatively small loans and often attract borrowers who cannot qualify for loans at other lending institutions. Optometry graduates, who are trying to get started, usually need more money than finance companies want to lend and the new doctors generally qualify for financing at banks.

Secondly, finance companies charge extremely high interest rates. The average rate is 2% or more per month and often there are special fees and charges that bring the cost even higher. Small finance companies can have interest rates as high as 40 percent per annum.[18]

Finance companies do, however, offer several advantages over other lending institutions. Often longer repayment periods are available which reduce monthly payments. Finance companies usually allow a greater variety of legally acceptable collateral, and, in some cases, authorize a higher percentage of money loaned against the collateral. They also generally make their credit decisions and advance payment more readily than other lenders.

BENSON OPTICAL CO., INC.

INSTRUMENT FINANCING PROGRAMS

1. <u>30-Day Instrument Account</u>

2. <u>30-60-90-Day Special Account</u> - No interest charged - customer must pay one-third of total each month.

3. <u>One-Year-to-Date Contract</u> - Written at 1% over the prime rate that prevails on the day the contract is written. Customer has 10 days to sign and return. This contract was designed for the new practitioner that is starting his first office. It allows him to purchase the equipment that he needs and delay making payments on principal and interest for the first year. At the end of the year-to-date contract the customer can pay off the principal and interest by financing through his local bank or by signing one of the bank contracts outlined below.

4. <u>Bank Contract</u> - Written for a period of time from 12 to 60 months at the add-on interest rates that prevail on the day the contract is written. These rates vary depending upon the general state of the economy.

5. <u>Escalating Bank Contract</u> - This contract allows for a graduated repayment schedule that lets you pay off 5% the first year, 15% the second, 20% the third, and 30% during the 4th and 5th years of the note. This contract can be started after the year-to-date contract is finished. Interest rates are the same as those used on regular bank contracts.

6. <u>Lease Program</u> - We can arrange for our customers to lease their equipment purchases from Trans Leasing International or Parliament Leasing. Call instrument division for contact person. As interest rates change, so do the lease rates.

* All of our bank contracts can be prepaid at any time without penalty.

12-1-80

Finance companies can be classified into three types: the industrial loan company, the personal property broker, and the small loan company.[19] Each of these is regulated by state usury laws that cover the terms of the loans and the interest rates they may charge. The distinguishing feature of an industrial loan company is its "thrift plan" in which investment certificates can be bought and interest may be earned.[20] Industrial loan companies make secured and unsecured loans. Personal property brokers may make secured or offer open-end credit.[21] Small licensed loan companies are few in number and specialize in small personal installment loans up to a limit of $1,000.[22]

CREDIT UNIONS

Credit unions are cooperative non-profit financial institutions formed usually by people with some common bond-membership such as a union, community, church, or fraternal organization.

They are established to serve the financial needs of their members. The membership's savings are designed for one purpose: lending money at modest interest to members who need it. Some state optometric associations as well as your spouse's employer, may have credit unions.

The average loan is small, about $600, but credit unions are permitted to lend up to $2,500 on single signatures, and more in the cases of co-makers or home mortgage loans.[23]

Most credit unions usually lend at lower rates, especially on secured loans. Some include credit life insurance without additional charges also.

For a long time, Federally chartered credit unions could not exceed 12% interest rates, but this ceiling was raised to 21% in December of 1980.[24] You are likely to find the best deal at a small credit union, where the sentiment may be stronger to keep interest rates as low as possible.

INSURANCE COMPANIES

No one in the survey used a life insurance loan, but if you or someone in your family have a straight or whole-life insurance policy, you can usually borrow against 80 to 90 percent of the policy's cash value (premium you have paid plus often the interest you have earned).[25] These policy reserves generally begin during the second year the policy is in force, but some companies offer them the first year.

There are several advantages to borrowing on the cash values in life insurance policies. First, there is no credit investigation and you need not state the purpose of the loan. Secondly, you can get the money on very short notice (usually within 2 or 3 days), and often the interest rate charged is below current bank loan rates.

Generally you have the option of paying back the loan with interest over a specified period, or paying only interest on the loan for an indefinite period. In either case, should you die, your policy's face value will be decreased by the amount of the loan plus interest outstanding. Credit insurance is available to pay off the loan in case of your untimely death.

WESTERN FINANCIAL CAPITAL CORPORATION

Western Financial Capital Corporation was established in early 1980 specifically to help the new optometry graduate get started in private practice. Realizing the staggering financial problems facing young doctors, Dr. Fred Rosemore, an Alabama O.D. and financial expert, collaborated with a group of optometric educators and founded the W.F.C.C. Starting up cold or buying a practice requires big money - a minimum of $30,000 usually. All too often the graduate leaves school already heavily in debt and suddenly realizes that there is no place to turn for start-up funds secured on a long term basis (longer than ten years). Unless the new doctor can secure loans amortized over a 10 to 15 year life, his new practice will be seriously jeopardized.[26] Many graduates want to go into private practice and practice professionally, but because of this financing problem, are frequently forced into working as an employee with a commercial chain.

The W.F.C.C. option offers long term (15-20 years) loans which translate into smaller monthly payments. The smaller payments enable the individual practitioner to meet his or her financial obligations realistically while building the practice.

In addition to the long amortization periods available, which reduce the difficult financial pressures during the early years, this unique financial organization also has an impressive advisory council that can advise the new O.D. on how to establish a practice with a lesser financial obligation and on other business problems if trouble arises. In case of hardships, W.F.C.C. allows the new doctor to make interest only payments.[27]

Members of the advisory board include Dr. Irvin Borish, Dr. William Baldwin, Dean of the University of Houston College of Optometry, Dr. Gordon Heath, Dean of the University of Indiana College of Optometry, Dr. Spurgeon Eure, President of Southern College of Optometry, and Robert Diamond, an attorney.

W.F.C.C. not only provides a source of borrowing to start or purchase a practice, but also provides loan funds to established O.D's. who wish to remodel, expand or build a new office.

W.F.C.C's. loan terms can be found on pages 40 and 41.

Although W.F.C.C. is an innovative and well needed organization, it has a few drawbacks. First, the corporation requires collateral and/ or a co-signer - two items the new O.D. might have trouble coming up with. Secondly, there is a $100 non-refundable application fee. Lastly, two respondants to the survey indicated that the corporation's loan processing time was extremely slow. One applicant waited 7 weeks for her loan, and the other waited 3 months. This may sound like a minor inconvenience, but you may be in competition to buy a practice and usually the prize goes to the first person who comes up with the money.

SMALL BUSINESS ADMINISTRATION

If you are unable to get a loan at reasonable rates from the previously mentioned institutions, then you may be eligible for a loan from the S.B.A. Optometrists are eligible for S.B.A. loans of up to $350,000 but generally new graduates come under the S.B.A's. "Limited Loan Participation Plan", which is a special program to cover loans up to $25,000.[28] The plan is designed to aid in the financing of small wholesale, retail, and service establishments which are unable to pledge enough tangible collateral, as normally required by S.B.A's. regular business loans.[29] The Administration loans are granted only if the borrower cannot acquire funds on reasonable terms from other sources. Before you rush down to your regional S.B.A. office, you will have to decide whether alternative loan proposals are unreasonable. Since the

WESTERN FINANCIAL CAPITAL CORPORATION

"A FEDERAL LICENSEE UNDER THE SMALL BUSINESS INVESTMENT ACT OF 1958."
308 TEMPLE AVENUE NORTH
FAYETTE, ALABAMA 35555
(205) 932-3528

Dear Applicant,

Thank you for your request for information regarding our loan program. Enclosed please find salient facts about WFCC.

In order to process your application we will need the following information:

1. Credit application (any form is acceptable)
2. Personal financial statement (obtainable at any bank)
3. Last 2 schedule "C's" of your business or practice
4. Brief personal history
5. Letter stating amount of money desired and use of proceeds (ie consolidation of business debts, equipment bills, business expansion, etc.)
6. List of equipment available with approximate market value that is available for collateral/and any other collateral available.
7. A non refundable $100.00 application fee

If sufficient collateral is not available please supply items #1 and #2 on the guarantor of note (ie. parents, business associates, etc.) In some cases purchasing a business or practice with a "track record" income may preclude the necessity of a guarantor.

If you have any further questions regarding our financing policies please feel free to contact us regarding your own specific individual situation.

Upon receipt of the above information we will immediately start processing your application.

Thank you.

Yours truly,

F.M. Rosemore O.D.

Fred M. Rosemore, O. D.
President
FMR/mg

WESTERN FINANCIAL CAPITAL CORPORATION

10/21/81

A FEDERAL LICENSEE UNDER THE SMALL BUSINESS INVESTMENT ACT OF 1958

Commercial Bank Bldg.—Suite 406
12550 Biscayne Boulevard
North Miami, Florida 33181
(305) 891-0823

Dear Applicant,

For your perusal we are furnishing the following information about our Financial Institution:

1. WFCC is Federally licensed and we can do business in every State.
2. We do not charge add-on interest. Our interest charge is simple daily interest. A payment received several days early results in a considerable savings. We are legally required to deduct this early interest payment and apply to the principal. Conversely this has a negative effect if the payment is received late.
3. Our method of operation is very simillar to a Savings and Loan or Thrift Institution. That is, we charge a 5% origination fee and terms can be from 5 to 20 years. We are not allowed to vary our rate during any 5 year period. Every 5 years the rate is adjusted to the prevailing rate at that time. It may be higher or lower than the rate made at inception of the note.
4. Our interest rates are controlled by the Federal Government. The rate can flucuate monthly depending on the time the loan is closed. Our interest rate is not tied to the prime rate. It is effected by the Federal Financial Bank rate. However, once the note has been made the interest rate remains constant for 5 years.
5. Although our note can not originate for less than 5 years the applicant may use any amortization desired and agreed upon (ie. 1 to 20 years). There would be no prepayment penalty other than 3 months interest(the time necessary to place your funds elsewhere).
6. We strongly advise that you take as long an amortization period as possible (ie. 15 to 20 years). In these times of high interest rates and high inflation your payment would be much lower with a resultant increase in your cash flow. Since we charge simple interest, at any time you desire you may make principal payments without any interest charges. You would therefore effect a tremendous savings and reduce the term of the note.
7. In most cases we can process the loan application in 7 to 10 days.

Should you need any further information please do not hesitate to call and we shall be glad to furnish same.

Yours truly,

Frederic M. Rosemore

Fred M. Rosemore
President
FMR/mg

S.B.A. does not try to compete with finance institutions, it usually holds that the going bank rates are reasonable.[30] In fact, if you live in a city with a population of more than 200,000, you must first apply to two banks before seeking an S.B.A. loan.

The S.B.A. usually works hand-in-hand with banks in administering its programs. The S.B.A. participates by usually lending 75% of the money and the bank provides the remaining 25%.[31]

Certain other criteria are sometimes used in establishing eligibility for S.B.A. loans. Minorities and individuals considered of an economically disadvantaged group are often allocated a certain percentage of the available loan funds. Veterans are also given a priority. During the Carter administration, a special program was created for women wanting to start a business. The program was very similar to the limited loan participation program and covered loans up to $25,000.

The S.B.A's. loans may seem like a great deal, but they have several drawbacks. First, the paperwork involved with these loans is unbelievable, and an S.B.A. loan guarantee takes anywhere from 3 to 6 months to process. If you did qualify for an S.B.A. loan, it is quite conceivable that you would forget several of your "21 points" before your loan money arrived.

Generally, the loans are issued with a fixed interest rate, but some have recently been offered with floating rates 2 3/4 points above prime;[32] most banks can usually beat this.

LEASING

The advantages and disadvantages of leasing equipment is controversial. Whether it proves rewarding for you depends on the leasing agreement and on what you expect to gain by leasing. It is usually not the way to go for a new graduate opening "cold", or probably during his or her early years in practice. However, it may have an advantage for the well-established practitioner.

Any item of professional equipment that you can buy you can also lease. The difference between leasing and buying is simply you do not get title to the equipment. It is similar to leasing your office space. You pay a monthly renting fee and you have the use of the equipment for a fixed period. Equipment leases usually run five years, but contracts can be issued for anywhere from three to ten years.[33] The shorter the leasing period, though, the higher the monthly payments, because the leasing firm has to recover its investment in a shorter period of time.

Leasing is always more expensive than borrowing from a bank, but it does offer several advantages. Number one is that leasing frees your cash. Established doctors do not have to tie up thousands of their investment dollars that could be earning money for them elsewhere. For the new graduate starting out with limited resources, leasing enables the financing of the entire cost of the required equipment. A loan on the other hand would probably finance 75% and the young O.D. would have to come up with the other 25% as a down payment. Some leasing companies also may allow you to finance the freight handling and installation as well.

Since leasing is technically not a loan, it allows you to take on greater debt.[34] Your leasing payments do not appear on your personal balance sheet as an obligation, so you can save your credit for other needs such as a home mortgage or new car loan.

Financing equipment through leasing also enables you to lease your instruments as needed. Most loaning institutions urge the borrower to borrow all you will need at one time, thus limiting your financing flexibility.

The second major advantage to leasing is that your leasing fees are 100% deductible for the year you paid them. Since the leasing payments cover a shorter time period than the depreciation rate, the charge-off is much quicker, creating greater deductions against current earnings. This is advantageous to the established practitioner in the upper income brackets, but for the new doctor just getting started, it is better to have depreciation to deduct in later years when his earnings are greater. Experts agree that you should be earning at least $30,000 to fully benefit from leasing's tax advantages and the higher tax bracket you are in, the more you stand to gain.[35]

While on the subject of taxes, let me explain the status of the 10% investment tax credit. Either you or the leasing company can take it, but not both of you. It is a negotiable item and the leasing agreement should indicate which one of you does get it. Get together with your accountant and decide whether it is best for you to take the credit or let the leasing company have it. If the leasing company takes it, they should reciprocate by lowering the leasing rate. Leasing and financing costs are usually about the same, but since the leasing company is getting the tax credit, the cost they quote you should be less than getting a bank loan to finance the equipment.[36]

If the leasing idea appeals to you, this is the procedure:[37] First get in touch with a leasing company and inform them about what you have in mind. (On page 46 you will find a list of thirteen leasing companies and their addresses. Most ophthalmic manufacturers and dealers also lease equipment, so ask around and compare leasing rates.) They, in turn, will send you an application. Then go to the equipment dealer and pick out the instruments you desire at the best price you can get. You and your dealer then forward the completed application to the leasing company. If the leasing company agrees to the lease, they pay off the equipment company and then start billing you a fixed monthly rental charge.

These rental charges are predicated on the leasing company's financing and handling fees plus the original cost of the equipment. The rates are quoted as a fixed monthly charge for every thousand dollars the equipment is worth.[38] The rates vary with the changes in the money market, the size and location of the leasing company, and your credit rating.[39]

When the lease expires, you can replace the equipment with a new lease or they will let you retain the instruments at a reduced rental charge, usually between 2 and 6 percent of the original charge.[40] A third alternative is to buy the equipment from the leasor for a modest sum; generally 10 or 15 percent of the original purchase price of the equipment.[41]

Some leasing companies demand a 10 percent security deposit made on the equipment. When the leasing period is up, you may receive a letter indicating that the leasing company will abandon the instruments

LEASING COMPANIES

1. AVCO Financial Service
   750 Third Avenue
   New York, N.Y. 10022

2. Beneficial Commercial Corp.
   111 Madison Avenue
   Morristown, N.J. 07960

3. Continental Resources, Inc.
   1 Penn Plaza
   New York, N.Y. 10011

4. E.L.S. Leasing Corporation
   P.O. Box 504
   Long Beach, N.Y. 11561

5. Equico Lessors, Inc.
   1 Garret Mountain Plaza
   West Paterson, N.J. 07424

6. Equilease Corporation
   P.O. Box 4571
   Burlingame, CA 94010

7. Equity Leasing Corporation
   20 West 22nd Street
   New York, N.Y. 10010

8. Federal Leasing Co.
   765 Orange Avenue
   S. Orange, N.J. 07079

9. Manufacturers Hanover Leasing Corp.
   30 Rockefeller Center
   New York, N.Y. 10020

10. Phoenix Leasing Corp.
    3576 Buford Highway
    Atlanta, GA 30329

11. Sonic Leasing Corp.
    420 Lexington Avenue
    New York, N.Y. 10017

12. Todd Leasing Corp.
    98 Cutler Mill Road
    Great Neck, N.Y. 11021

13. United Leasing Corp.
    900 Walt Whitman Drive
    Melville, N.Y. 11747

if you will relinquish the deposit. A word of caution here. Watch out for contracts with clauses that give you a fixed option to buy. The I.R.S. might construe this as a conditional sales contract, not a lease, and you would lose the leasing tax advantages.[42]

In summary, leasing will generally cost a bit more, but the advantages may make it worthwhile, especially if you are having trouble financing equipment or if you are in a high tax bracket.

CONCLUSION

In summary, I have tried to inform the optometry graduate or student on the basics of borrowing money. Because of the current economic conditions, acquiring a start-up loan may be one of the biggest challenges facing the graduate. Money is "tight" and the new doctor seeking a loan must be knowledgeable in the area of financing. This knowledge will not only enhance his or her chances of securing a loan, but will also save him or her money.

The survey I conducted on last year's graduates revealed many interesting trends and problems which I feel are very valuable when planning your financing. With an extensive literature search and many interviews I also feel I have adequately covered the areas of loan proposals and lending institutions. With this information the new graduate should be able to construct an impressive loan proposal and hopefully be successful in securing the necessary funds to fulfill his or her practice goals.

Don't forget to shop around for your loan. Talking to many lenders will not only increase your knowledge on this topic, but it will also increase your self-confidence. The more loan officers or bank managers you talk to the less intimidating they become.

One last word of advice: don't forget that you are essentially "buying" money, so the old adage "buyer beware" still applies.
Good luck.

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