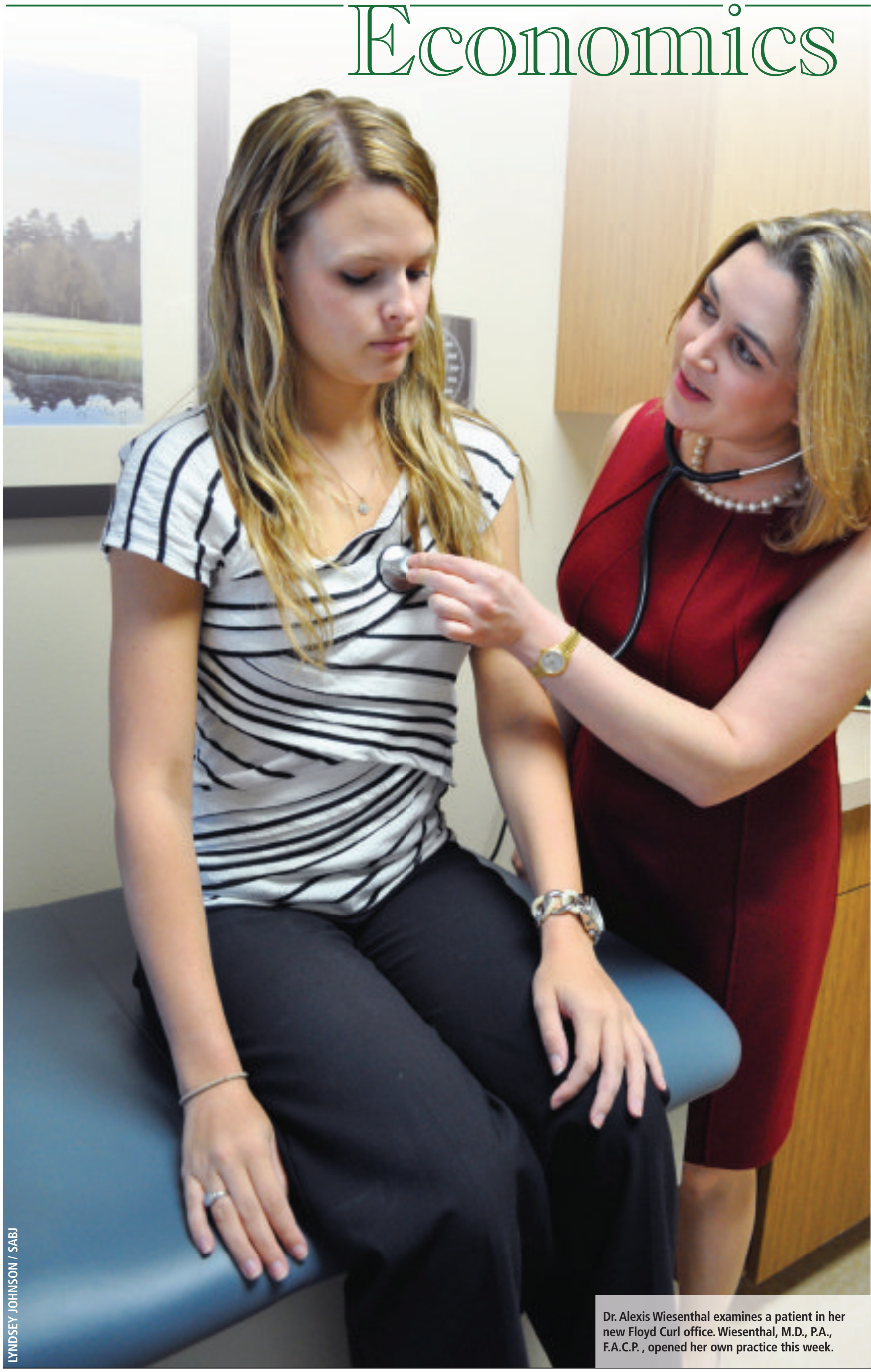
Medical Practice Economics

For doctors, financing their business can be scarier than wielding a scalpel. San Antonio bankers and CPAs offer eight crucial tips for getting it right.



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Dr. Alexis Wiesenthal examines a patient in her new Floyd Curl office. Wiesenthal, M.D., P.A., F.A.C.P., opened her own practice this week.

BY YASMIN GHAHREMANI

After earning her medical degree at the Texas Tech University Health Sciences Center School of Medicine, Dr. Alexis A. Wiesenthal started saving money during her residency at the Mayo Clinic in Arizona.

She returned to San Antonio and has spent the last four years working as an internal medicine doctor at her father's practice in the Physician's Plaza building in the San Antonio medical center. This week, she opened her own practice on Floyd Curl Drive, three blocks from her dad's office, using only a line of credit from Wells Fargo. "I've pretty much just been saving up for this," she says. "It's definitely possible to do it on your own."

When it comes to doctors, Wiesenthal is the exception rather than the rule. Business finance still is not a staple in many medical school curriculums these days. Most doctors come out better equipped to handle cardiac arrest than a trip to the bank for a loan.

But many will have to borrow money at some point in their careers — whether it's a short-term loan for new equipment, a long-term mortgage for real estate, or a line of credit to keep operations going during low cash-flow periods.

Whatever the reason, experts agree there are general guidelines that can smooth the lending process.

Find EIGHT TIPS to help physicians get the right financing on PAGE 22.

1 Start saving now.

A flashy car or nice house sounds awfully tempting after enduring the rigors of med school and residency. But restraint makes good business sense, especially given that the average student debt totals $150,000. "Try to be frugal until you're up and running," says Karen Leckie, vice president of private banking at Amegy Bank in San Antonio.

Even if you do get a loan, you'll need to chip in some of your own money. "Banks generally want to see that you have at least $50,000," says John Bruce, a certified public accountant and partner at BKD who specializes in health care. "It shows that you have discipline."

2 Watch your credit score.

Build credit responsibly. A good score can make all the difference if there's any doubt about the risk you represent to a bank. "A lot of people don't realize how important credit history is," says Amegy's Leckie. "If there are any grey areas because of a doctor's specialization or financial statements, a credit score can tip the scales one way or the other."

3 Seek other types of help first.

"If it's a startup medical practice, I always tell my clients I really should be the last person they see," says Albert Estrada, senior vice president of commercial lending at one of Plains Capital Bank's San Antonio locations. "It helps them to have everything in place before they come to us."

Health care lawyers can help negotiate contracts and advise on whether to set up a professional association or a professional limited liability company. Accountants with health care experience can provide pro forma information the bank will want. Medical practice consultants may also be of use. Ask other doctors or your bank for recommendations.

4 Be ready with insurance and financials.

Banks typically want a doctor to have key man life insurance, which guarantees that if the physician dies the bank is first in line to get paid. They also want to see commercial liability, casualty and business interruption insurance.

Beyond insurance, the doctor is required to submit a tax return to the bank at application time and again at the end of every loan year. You may also need to show periodic accounting information such as a balance sheet and a quarterly profit-and-loss statement. Also on the list of requirements: a subordination of the landlord's lien, so that in the event of default the bank gets paid first, not the landlord.

5 Shop around for banks.

A good health care banker will understand issues unique to the medical profession. For instance, doctors typically have a 90-day accounts receivable cycle, compared to 60 days for other small businesses. Medical practices also tend to keep very little capital in the business.

Amegy, Frost Bank and Plains Capital are the strongest San Antonio banks for medical practices, according to BKD's Bruce. He recommends comparing interest rates when it comes time to borrow. "Banks are very aggressive these days," he says. "Even if doctors don't want to shop around, they can exert a little pressure on their own bank regarding interest rates if they know what else is out there."

6 Be prepared to take all of your business to the bank you choose for a loan.

"Doctors need to offer their whole practice now – the loan and other things like treasury management to the bank," says Dr. Mike Murphy, a pain management specialist who has started numerous medical businesses and is on the board of the Bank of San Antonio. "And the bank needs to make his life easier with things like check scanning machines and other services."

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Dr. Michael L. Murphy is a pain management specialist who has co-founded and invested in several health care ventures. He also sits on the board of directors for the Bank of San Antonio.

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7 **Consider alternative financing.** Doctors buying real estate might want to get an SBA 504 loan, which is offered through banks at a 20 year fixed rate. The bank provides 50 percent of the financing, the Small Business Administration provides 40 percent, and the physician kicks in the rest. The benefit for doctors is a fixed rate with no balloon payments.

For a new practice or a practice adding a new physician, hospital financing may be an option. The hospital essentially acts as a bank, providing funds for practices that refer patients to hospitals. "They have to demonstrate that there's a need to recruit a new physician," explains Michael Kreager, a health care attorney at The Kreager Law Firm. "In San Antonio that's generally not a problem. It's used all the time by hospital systems as a way to keep practices growing." As long as the new doctor stays in the community for three years, the loan is forgiven.

8 **Get a qualified specialist to monitor collections.** Hiring a good office manager or outside billing professional is perhaps the most important step for any practice. "Billing and collections can make or break a practice," says Plains Capital's Estrada. "Doctors understand the saying that a pound of prevention is worth an ounce of cure. We'll finance these costs. We understand you have to spend money to make money."

In P.J. Cloud's article on "Boosting Collections at Your Medical Practice," in Physician's Practice magazine, she suggests choosing one person from the physician office to be the main point of contact with one representative from the billing and collection agency. Many errors occur simply because the information exchanged daily isn't streamlined. "By having this point of contact person in place, they will form a relationship with the contact at your billing company. It is very important that they trust each other and work hard to develop that trust," she writes.

YASMIN GHAHREMANI is an Austin-based freelance journalist.

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Dr. Alexis Wiesenthal's savings allowed her to open her own internal medicine practice with only a line of credit from a bank.

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