

# Finance Options for Law Firms

Unshackle your house  
from your business

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## The need

For many firms sourcing funds for working capital, growth and succession has traditionally meant borrowing money from a bank secured by a mortgage over the partners' personal assets. As a business case this is not an ideal situation. Business assets should be used to grow the business and personal assets used to grow personal wealth.

In the next few years the need for funding is likely to increase. There will continue to be a significant transition of ownership within the profession as a result of the aging partnership base. In addition to this, funding to smooth cash flows will become more important in uncertain economic times.

The nature of the legal profession has meant banks have struggled to determine an appropriate methodology to value legal practices. Without being able to value goodwill in a firm, the banks have insisted on bricks and mortar as security. As a result the ability to separate personal assets from the business funding has been difficult for many firms.

## The solution

Recognising this need among our clients FMRC, in conjunction with Bstar, a specialist business valuation company, has worked with a number of banks to refine their lending options to legal practices. Using our methodologies some of Australia's most prominent banks have formally recognized that many legal practices have intrinsic commercial value. This enables the goodwill in a legal practice to be used as security for loan finance.

Several banks offer similar arrangements for other professional service industries (such as accounting and financial planning) but until now were reluctant to extend such arrangements to the legal profession.

If the lending facilities in your firm are secured by the personal assets of the principals, this initiative will suit you.



## Now you can be released of giving your personal assets as security on business loans and fund for growth.

### Applicability

There are two main benefits associated with this type of funding:

- i Releasing of personal asset security (i.e. the house) on existing business loans to enable wealth creation away from the firm; and
- ii. Business funding for growth initiatives such as admission of new partners, succession or realising the equity in the firm.

Firms now have an avenue whereby the next wave of principals can access the funds they require to buy out existing principals. Without such an avenue many 'future principals' would struggle to raise the required funds to buy equity in their employer. This represented a significant barrier to effective succession planning as existing principals could not extract the value of their equity and new principals could not raise the finance to enable them to step up.

From a growth perspective this banking initiative makes the acquisition process easier. One of the biggest drawbacks with external acquisitions has been the need for the principals to use their personal assets as security for the finance. This is not universally popular, especially amongst multi-partner firms with cross generational principals.

### FMRC

For the past 30 years we have specialised in research, strategy and management training and advice to law firms. We are a major centre for legal practice management training. Participants enjoy the results of our research and consulting activities. They receive empirical, substantive advice rather than anecdotal, theoretical advice.

We act for law firms throughout Australasia, from major national firms to mid-sized, boutique and progressive small firms. In addition, we also serve a number of government departments and bodies.

### Bstar

Bstar is an industry planning company specialising in assisting organisations to reach their future potential through effective growth and succession planning.

Bstar has developed bank accredited business valuation technology. Their programs are supported by a national network of industry organisations and business partners, banks, accountants and financial planners. The company has offices in Australia, New Zealand and Canada.

**If you would like to review your current banking arrangements or for more information**

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APPROVED