
Financing Your New Practice

A starting-up lawyer's initial financial resources will usually come from one or more of the following sources:

- Personal funds**, which are shown on the books as a capital contribution
- Funds borrowed from family and friends** (if a source of borrowing is also a potential source of legal work, you must pay close attention to Rule 3.4-13 of the Code of Conduct on conflict of interest when doing business with a client)
- Bank term loan**, usually used to finance capital expenditures, repayable in regular monthly payments of blended principal and interest or a fixed amount of principal plus interest, and which may have a fixed rate of interest or a floating rate tied to prime
- Line of credit** at the discretion of the bank; should be viewed as overdraft protection to help smooth out the ups-and-downs of cash flow, and not as a permanent source of bank financing because it will carry a high rate of interest
- Credit cards**, which, of course, have very high interest rates; many lawyers obtain a credit card for business expenses only, which they use for convenience and pay off every month
- Credit accounts** at Land Titles Office, stationers, court reporters, couriers, etc.
- Tenant improvement costs** buried in rent
- Equipment costs** buried in lease payments (see below)
- Cash flow** is a very unreliable source of cash flow in a new practice unless the starting-up lawyer has brought an established client base from another firm

You cannot finance your practice by giving a third party a share in your practice or a "piece of the action" on a file.

Additional Notes:

Buy, lease or rent your equipment?

This is a question to discuss with your accountant. If you buy, you will likely be making a capital expenditure, so you will not be able to deduct the cost as a current expense. Buying usually results in a lower overall acquisition cost, but cuts more deeply into your credit. Lease and rental payments are, in most cases, deductible in full as expenses as they are incurred. Rentals are usually more expensive than leases, but they are easier to get out of. Leasing is really just another way of borrowing money, and usually an expensive way at that. Bear in mind that the resale value of modern electronic technology is minimal.

Bank financing

In recent years, the banks have become much more careful about lending money to lawyers just starting out in new practices. Before it lends you money, a bank will usually require a promissory note, an assignment of book debts and additional security such as charge on real property or a co-signer or personal guarantor such as a spouse with a good job or a parent with assets. Shop around because banks have different policies on loans to startup law firms. Be ready with a business plan and a budget that shows your proposed capital, startup and operating expenditures and your borrowing requirements to meet them.

Also be ready to provide a statement of your own assets and liabilities and details of any funds you are contributing personally or through other borrowing. Have all of this material prepared, with supporting quotations for major capital purchases, and any other material you think relevant to your presentation to the bank. The more businesslike you are in your presentation, and the more knowledgeable you appear concerning your financial obligations and your financial needs, the more likely you are to receive a favourable response to your requests.