

Preparing Your Organization to Apply for a Loan

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Introductions

Considering a Loan?

- What types of loans are available?
- What do lenders look for?

Putting it all Together: Match the Loan to the Need

Q&A

Overview: Nonprofit Finance Fund (NFF)



NFF connects nonprofit finance to mission success.

Serving thousands of nonprofit and funders nationwide since 1980

- Over \$200 million in loans; over \$1 billion in capital leveraged for nonprofits
- Over 600 customized financial consultations
- Hundreds of strategic partnerships to advance the nonprofit sector
- Thought leadership to advance friendlier funding practices across the nonprofit sector

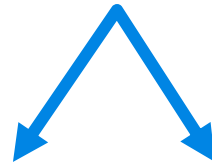
“We’re in the business of helping nonprofits run better.”

–Clara Miller, NFF
President and CEO

The NFF Triangle: Staying in Balance

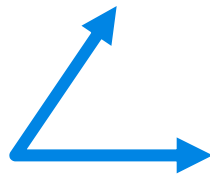
Mission and Program

What you do, and how you do it.



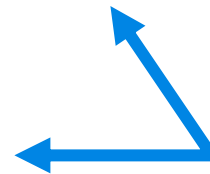
Capacity

The people, space, and processes that allow you to do what you do.



Capital

What resources and assets you have to work with.



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Operational Support

- Seasonal Needs
- Cash Timing Gaps Related to Funding
- Day-to-Day Operating Cash Needs

Financing an Asset

- Facility Acquisition, Construction, Renovations
- Equipment Purchase

Organization is Planning Growth or Expansion

- Growth Capital
- Temporary Support

Working Capital Loans: financing for short- and medium-term operating needs

- Line of Credit
- Bridge Loan
- Growth-Related Loans
- Equipment Loans

Facility Loans: financing for medium to long-term facility needs

- Pre-development
- Acquisition/Permanent
- Construction/Renovation/Leasehold Improvements

Working Capital Loans: Lines of Credit (Revolving)



Designed to help an organization through a short- to medium-term cash need

Typically finance current assets such as receivables and inventory

Repayment is generally from operating cash flow

Usually includes a clean-up or clean-down: a period of time (typically 30 days) when repayment is required and no borrowing is permitted under the line

Working Capital Loans: Bridge Loans

Used to bridge timing gap between an organization's need to pay expenses and when it receives payment, generally in a lump sum from a specific source:

- Government contract
- Foundation or Corporate grant
- Seasonal events

Principal repayment is required upon receipt from the funder

Monthly interest payments are required, generally from the organization's operating cash flow

Working Capital Loans: Loans for Growth and Expansion



Nonprofits may identify an opportunity for additional programs, expansion of existing programs, or a new venture

Provides funds for hiring additional or upgrading staff, or supporting operations until stabilized

Interest is paid monthly; principal repayment may be timed to match the organization's projected growth benchmarks

Working Capital Loans: Equipment Loans

- Finance the purchase of equipment necessary for the organization's operations, such as telephone and computer systems or building systems such as HVAC
- These loans provide an alternative to leasing
- Repayment is from cash flow
- Principal and interest payments are made monthly to fully repay the loan over the term, generally the useful life of the equipment

Working Capital Loans: financing for short- and medium-term operating needs

- Line of Credit
- Bridge Loan
- Growth-Related Loans
- Equipment Loans

Facility Loans: financing for medium- to long-term facility needs

- Acquisition/Permanent
- Construction/Renovation/Leasehold Improvements/Pre-development

Facility Loans:

Acquisition/Permanent Loans



- Their purpose is to provide medium- or long-term financing for the purchase, construction, or renovation of a facility
- May be used to refinance an existing loan
- Usually collateralized by the underlying asset, if real estate generally a mortgage on the property
- Monthly principal and interest payments required often based on an amortization (10 to 20 years) may be longer than the loan term
- Repayment is from cash flow

Facility Loans: Construction, Renovation, Leasehold Improvement, Predevelopment



- Used for new construction or renovation of owned real estate or for leasehold improvements
- Loans may convert to or be repaid by permanent financing
- Construction loan term is based on timeline of project
- Generally interest paid monthly during construction
- Loan is generally secured by the property
- Loan is disbursed as construction progresses
- Cost overruns, construction delays pose the greatest risk
- Some lenders may provide pre-development loans to:
 - cover costs related to assessing viability of a project and inform decision-making before moving forward
 - Eligible costs include: architectural plans, structural engineering inspections, environmental assessments.

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What Do Lenders Look For?



Financial strength

Management and Governance

Planning and Reporting

Repayment sources

- Demonstrated history of consistent unrestricted operating surpluses at fiscal year end
- Diversified, reliable, sustainable revenue sources
- Positive trends in revenue, surpluses and net assets
- Cash flow sufficient to support operations and service debt
- Positive cash balance from year to year
- Reinvestment of excess cash, as needed, in facility or other infrastructure costs
- Established reserves for unanticipated events and maintenance

- Strong, stable, experienced management team
- Management team balances programmatic and financial expertise
- Engaged board of directors operates independently from management, performs fiscal oversight
- Board members with diverse, relevant professional backgrounds support and supplement staff expertise
- Well developed infrastructure to support operations; including staff, systems, procedures, checks and balances

- Timely, accurate reporting and analysis of financial results by management and board
- Audits and financial statements are completed in a timely manner
- Accounting practice maintains a reliable process of generating internal financial statements on a timely basis
- Clear, concise, detailed business plan includes analysis of program and financial strategies, multi-year projections. Proactive planning and adjustment as needed
- Planning for growth, change or facility projects
 - Internal support: Staff, board, management are aligned
 - Viability: Project scope, size, and goals are reasonable and measurable; funding sources identified
 - Business plans aim for long term sustainability
 - Evaluated for competition, user demand, relevance

- Demonstrated, consistent unrestricted operating surpluses sufficient to support operations and service debt (principal and interest payments)
- Repayment sources are committed and confirmed
- Repayment sources are available and budgeted by funder

What If I'm Not Ready?

- Complete a thorough internal assessment: what are your vulnerabilities or the areas that need improvement in the four areas that lenders look at?
- Based on your analysis, develop a work plan, identifying the resources needed to fill those gaps:
 - Work with a management support organization?
 - Engage staff and board?
 - Talk to your peers to share challenges & develop solutions?
 - Talk to your funders about potential resources or external expertise?
- Perform thorough financial analysis: Implement controls, budget reporting, evaluate programs, profitability etc..

Assessing your Options: What Are the Types of Lenders?



Banks – community, regional, national

Community Development Financial Institutions (CDFIs)

Governmental & Quasi-Governmental Agencies

Foundations

Other mission-based lenders

Individuals

Beginning the Conversation: What Will the Lender Ask For?



Financial Information

- Audited financial statements
- Current year budget
- Year-to-date financial statements
- Existing debt and borrowing history
- Sources of repayment
- If repayment is from fundraising, fundraising plan

Organizational Information

- Strategy and business plan
- Annual report and brochure
- List and bios of board of directors, key staff
- List of major funders

Project/Financing Need Information

Facility Projects:

- Project description, scope of work
- Project budget
- Operating Proforma
- Copies of lease, contract of sale, construction and architect's agreements

Working Capital Loans:

- Copies of major executed contracts
- Monthly cash flow

Beginning the Conversation: What are Signs of a Good Lender?

- Do they understand your business?
- Are they willing to invest time in understanding your operating model to offer solutions tailored to your needs?
- Do they know your community and market?
- Do they have competitive terms for your marketplace?
- Is the application process reasonable in scope and time frame?

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What's the Right Loan?

Matching the Loan to the Need



You're a social service agency receiving significant revenue from the government. But frequently, payment of your government receivables are delayed...

Working Capital

Line of Credit

You're a successful and popular community center. But with overcrowded programs and facilities, you're considering expanding or buying a new, larger space...

Pre-development

You're an experienced organization in a low-income neighborhood undergoing a major transformation: You're building an entirely new, large facility to serve more clients...

Facility; NMTC

What's the Right Loan?

Matching the Loan to the Need



You're a health clinic starting construction on a new, larger facility. Although you've secured funding, it won't be available for 6-9 months...

Working Capital

Bridge

You're a charter school for K-12, and you need to upgrade all of your computers and printers to keep up with the times...

Working Capital

Equipment

You're a small performing arts center that's growing out of its space. After a close examination of your books, you've decided that you're financially ready to add a small wing to your building and make some renovations...

Facility

NFF's Continuum of Services: Tools for Changed and Changing Times



How Can I Apply for a Loan at NFF? Contact Us!



**NFF offers services throughout these local regions.
Contact a lender near you to find out how we can help.**

Northeast

- New York
 - 212 868 6710
 - NY@nffusa.org
- Boston
 - 617 204 9772
 - NE@nffusa.org

West Coast

- San Francisco
 - 415 255 4849
 - SF@nffusa.org
- Los Angeles
 - 213 623 7001
 - LA@nffusa.org

Mid-Atlantic

- New Jersey
 - 973 642 2500
 - NJ@nffusa.org
- Philadelphia
 - 215 546 9426
 - Philadelphia@nffusa.org
- DC-MD-VA
 - 202 778 1192
 - DC@nffusa.org

Midwest

- Detroit
 - 313 965 9145
 - Detroit@nffusa.org

Visit us at nonprofitfinancefund.org