Nonprofit Finance Fund

Accessing and Managing Credit Webinar

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Nonprofit Finance Fund: Where Money Meets Mission

Since 1980, NFF has lent $170 million and leveraged more than $1 billion of capital investment on behalf of our nonprofit clients

- Helped 8,000+ nonprofits implement sustainable growth and improve their capacity to serve their communities.

Federally-certified Community Development Financial Institution (CDFI) and nonprofit 501(c)3

National organization serving regional needs

Provides many financial services

- Loans
- Grants (planning and capital)
- Nonprofit Business Analysis (NBA)
- Systems Replacement Plan (SRP)
- Technical assistance, advice, workshops

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Agenda

Overview of Loan Products and Due Diligence Process

Financial Needs of Borrower

Loan Products

What Your Lender Will Look For

Credit Quality Guidelines

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Financial Needs of Borrower

Why Do Nonprofits Borrow Money?

- Asset Support
- Acquisition of Asset
- Organization is Losing Money

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Financial Needs of Borrower: Asset Support and Acquisition of Asset

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Asset Support

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

Acquisition of Asset

- Acquisition
- Construction
- Facility Renovations
- Equipment Purchase

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Financial Needs of Borrower: Organization is Losing Money

Organization is Losing Money

- Financing Growth Capital
- Financing Ongoing Operating Deficits (Red Flag)

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Loan Products

Working Capital Loans: short-term financing for short-term needs

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

Facility Loans: long-term financing for long-term needs

- Acquisition/Renovation
  - Term Loan/Mortgage
  - New Markets Tax Credit
  - Bonds
  - Construction/Renovation/Leasehold Improvements

- Bridge Loans
  - Capital Campaign
  - Government Contract

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Working Capital Loans:
Lines of Credit

- Used for asset support
- Repayment is from general operating cash flow
- When used properly, there are frequent advances and repayments as opposed to one large drawdown shortly after closing
- Generally there will be a non-use fee to compensate the lender for making the funds available and for handling multiple transactions
- Usually a clean-up period is required. This is a period of time (typically 30 days) when there will be no borrowing under the line
- Since payment is not tied to any particular inflow of cash, the loan is based upon the overall health and sophistication of the borrower

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Working Capital Loans:
Bridge Loans

- Used for asset support (timing gap)
- Purpose is to finance receivables – typically government contract bridge loans
- Reimbursable contracts create a timing gap between expenditures and payment
- In the case of reimbursable contracts, the principal is repaid from the proceeds received from the funding agency
- Interest expense is covered by the agency's own cash flow

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Working Capital Loans:
Growth-Related Loans

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- Used to finance growth capital
- Agencies may identify a growth-related opportunity either for additional programs of for an earned income venture
- The financing provides funds for increased inventory, to carry receivables, or to finance equipment
- Loans that finance inventory and receivables should be repaid as those assets are converted to cash
- Equipment loans should be repaid with monthly principal and interest
- The lender will give consideration to the extent to which the proposed venture fits or strays from the organization's mission
- The lender will also want to see a well-thought-out and plausible business plan, as all new ventures carry some risk

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Working Capital Loans:
Equipment Loans

- Used to finance the acquisition of assets
- Their purpose is to finance the purchase of equipment necessary for the organization's operations, such as telephone and computer systems
- These loans provide an alternative to leasing, although the agency must determine which financing vehicle would be the most appropriate
- Repayment is from cash flow
- Monthly principal and interest payments are made to amortize the loan over the useful life of the equipment, but in general the loans are not structured to be longer than three years

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Loan Products

Working Capital Loans: short-term financing for short-term needs

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

Facility Loans: long-term financing for long-term needs

- **Acquisition/Renovation**
  - **Term Loan/Mortgage**
  - **New Markets Tax Credit**
  - **Bonds**
  - **Construction/Renovation/Leasehold Improvement**

- **Bridge Loans**
  - **Capital Campaign**
  - **Government Contract**

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Acquisition/Renovation:
Term Loan/Mortgage

- Their purpose is to provide medium-term financing for the purchase, construction, or renovation of a facility
- May be used to refinance an existing mortgage
- A second mortgage can cover the "down payment gap"
- Usually collateralized by the underlying asset
- Structured with equal monthly principal and interest over five to seven years, often with a longer amortization (10 to 15 years)
- Repayment is from cash flow

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Acquisition/Renovation:
New Market Tax Credit

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- US Department of Treasury program administered by the CDFI fund
- Provides tax incentives to induce private sector, market-driven investment in businesses and real estate developments located in economically distressed communities across the nation.
- Financing is available for acquisition or substantial renovation
- Projects qualify by geographic location – census tract
- Life of the loan is seven years with a longer amortization
- Offers lower interest rate and equity-like features
- Trade-offs include potential complexity, reporting requirements and refinance risk (generally necessary after the seven-year life of the loan)

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Acquisition/Renovation: Bonds

- Some projects may be eligible for tax-exempt financing
- Bonds are issued by a county or municipality development agency
- Bonds may be purchased by a bank, a tax-exempt fund or individuals
- Tend to have longer amortization periods and call provisions than a conforming mortgage but usually adhere to the 80% loan-to-value
- Drawback is that bonds are expensive to issue

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Acquisition/Renovation:
Construction/Renovation

- Used for new construction, renovation, and extensive renovation or leasehold improvements
- Loans for larger projects typically convert to a mortgage/term loan or a capital campaign loan
- Term is based on the timeline of the project
- Generally monthly interest only during the construction period
- The lender will consider taking an owned facility as collateral
- Funds are advanced based on proof that the work has been completed
- Repayment is traditionally from a permanent source of financing or from various reimbursement capital grants
- Cost overruns and construction delays pose the greatest risk to repayment

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Bridge Loan:
Capital Campaign

- Their purpose is to bridge the receipt of multi-year capital campaign pledges associated with a capital project
- They can also bridge the "to-be-raised" portion of the capital campaign in some instances
- The loan amount is 80% to 90% of the written pledges to allow for some unfulfilled pledges
- Required principal payments will be tied to the projected receipt of the capital campaign proceeds and interest is monthly
- Usually limited to three years with a maximum of five years
- Can be structured as a revolving loan when the campaign is continuously receiving payments on existing pledges and generating new pledges
- The lender will carefully monitor a cash-strapped organization as they may choose to use the campaign proceeds for operating purposes rather than debt repayment

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Bridge Loan:
Government Contracts

- Purpose is to bridge reimbursable government grants for construction
- Repayment is from the proceeds received from the funding agency

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What Will the Lender Ask For?

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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, copy of the fundraising plan

Organizational Information

- Annual report and brochure
- List of board of directors, key staff
- List of major funders

Project Information

- Project description, scope of work
- Project budget
- Pro forma for operations after project completion
- Copies of lease, contract of sale, construction contract, architect's agreement

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What Will the Lender Ask For?

In conversations with your lender, be prepared to share:

- Short- and long- term plans for the organization
- Evidence of reporting and processes in place to measure progress against budget and ability to course correct
- Funding commitments / contracts for next 12 months (at minimum)
- Multiple scenarios for potential reductions or loss in funding

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Credit Quality Guidelines

Due Diligence & Financial Analysis Process

Consider qualitative and quantitative factors

Best Practices

- Clear, concise mission and well-defined goals
- Financially stable
- Stable board and management team
- The loan and scope of the project is well-suited to the organization's needs and capacity
- An infrastructure to support the mission and goals is in place

Early Warning Signals

- History of year-end deficits
- History of cash flow problems
- Organization is heavily reliant on one or two sources of income
- Management and board goals are not aligned with each other or with the organization's mission
- Inadequate governance procedures are in place

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Thank you

Thank you for your participation and to the generous support of MetLife Foundation.

Evaluation
http://www.zoomerang.com/Survey/?p=WEB22A8BCNVJD6

Please join our upcoming conference call.
Thursday, March 4, 2010 at 1 PM Eastern.
https://www1.gotomeeting.com/register/362334664

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