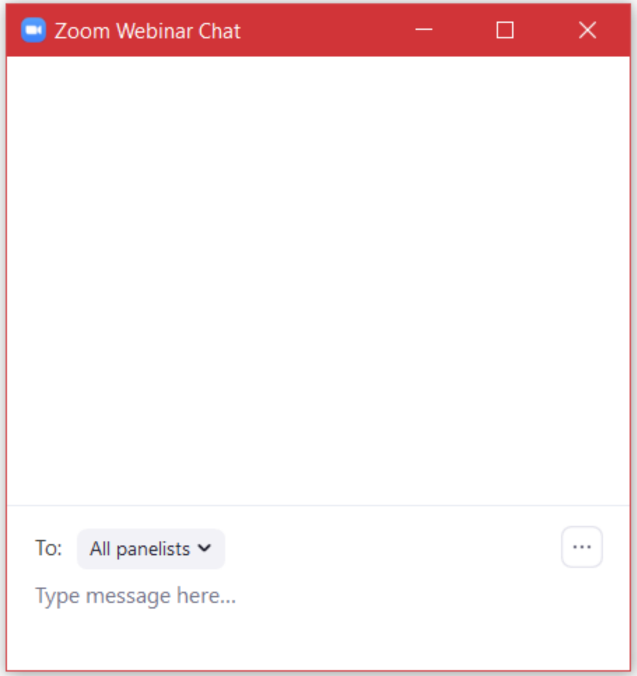
Intro to Debt – webinar housekeeping

All participants are muted to ensure the best audio quality.

To ask a question, you can type it into the chat box at any time. Questions will be addressed at designated intervals.

The slides and full recording will be provided to everyone who registered for this session via email.



This session is being recorded.

Metro Denver Nonprofit Loan Fund

Metro Denver Nonprofit Loan Fund

Introduction to Debt webinar

NOVEMBER 11, 2020

Today's Agenda

- Welcome from Community First Foundation, The Denver Foundation and Rose Community Foundation
- Introduction to Debt presentation from the Nonprofit Finance Fund
- Preview of the new Metro Denver Nonprofit Loan Fund
- Questions and discussion

Community First Foundation®
Powering Community Together

The Denver Foundation

Rose Community Foundation

Nonprofit Finance Fund®

A Guide to Nonprofit Debt in the Age of Covid-19

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November 11, 2020

Agenda

Introduction to NFF

Introduction to Debt for Nonprofits

- Why nonprofits borrow money and who offers nonprofits financing?
- How to know if debt is the right decision for nonprofits
- The process for apply for a loan and how lenders make financing decisions

About NFF: Linking Money to Mission for 40 Years

- **Lending and Financing:** With NFF's financing, nonprofits grow, manage uneven cash flow, purchase, expand or renovate facilities, and more. We also help other funders and impact investors strategically place their capital.

- **Strategic Advice:** NFF is a financial educator and trusted advisor to nonprofits and funders. We support and meet nonprofits where they are, whether they're entering a period of growth, trying to make ends meet, or strengthening or adapting their business model.

- **Accessible Insights:** We surface and communicate trends that emerge from serving thousands of organizations. Our goal is to cut through complexity and share practical solutions for common or systemic problems.

- **COVID-19 Recovery Funds:** NFF administered two COVID-19 emergency response funds, NYC COVID-19 Response & Impact Fund (NYCRIF) and the Jewish Community Response and Impact Fund (JCRIF). NFF has also provided free financial management tools, webinars, and articles to support nonprofits during this time.

Debt for Nonprofits

Why Nonprofits Borrow Money

Operating Support:

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

Organization is Planning Growth or Expansion:

- Growth Capital

Financing an Asset:

- Facility Acquisition, Construction, Renovations
- Equipment Purchases
- Temporary Support

Types of Loans:

Operating Support/Working Capital:

Lines of Credit (Revolving)

- Used to manage short to medium term cash needs
- Secured by A/R or other assets

Bridge Loans (Non-revolving)

- Used to “bridge” the time between when an organization must spend money and when it receives money from a funder
- Secured by pledge or award.

Loans for Growth and Expansion

- Used to cover temporary deficits necessary for growth/ change.
- Secured by assets.

Types of Loans:

Asset Loans:

Acquisition/Permanent

- Long term loans to buy assets
- Collateralized by underlying asset

Construction/Renovation/Leasehold Improvements/Pre-Development

- Often secured by property

Equipment Loans

- Used to purchase equipment.
- Secured by underlying asset.

Who Offers Debt to Nonprofits?

Community Development Financial Institutions (CDFIs)

- CDFI's (like NFF) are mission driven lenders that provide financing to nonprofits, small businesses, and individuals.

Foundations

- Foundations offer nonprofits loans through program related investments and mission related investments. These investments are often low interest or 0% interest and may be forgiven.

Commercial Financial Institutions

- Banks, B-Corps, and other for-profit financial institutions

Governments

- Government bodies can offer loans and upfront payments for contracts.

How to Know if Debt is Right for your Nonprofit

When Debt is a Good Idea

- A nonprofit is reasonably certain how it will generate the revenue necessary to cover BOTH normal operating costs and required debt service
- The need for cash is a matter of timing or delay (e.g. government contract that is secured by slow to pay)

When Debt is Not the Answer

- When a nonprofit has a significant gap in its budget (e.g. an event has been cancelled) and it has no plan for how it will repay the debt while still meeting its operating needs
- When a nonprofit has structural/business model problems (e.g. an organization has recurring accumulating deficits because revenues are insufficient to fully cover operating costs)

How This Has Changed Due to COVID-19 and Current Sources of Recovery Debt

Government Loan Programs

- Paycheck Protection Program: For organizations with less than 500 employees. May be forgiven under certain conditions
- Emergency Economic Injury Disaster Loans: Not forgiven.

Foundations Loan Programs

- Foundations around the country are pooling resources for interest free flexible loan funds to support the recovery and sustainability of nonprofits.
- Some foundations may serve as a guarantor on a commercial loan.

Commercial Financial Institutions

- Banks and other lenders have access to historic amounts of funds to be distributed as loans at record low interest rates. While barriers to entry are higher, many nonprofits can qualify.

What Lenders Look For

Financial Strength

- Consistent surpluses
- Reliable revenue sources
- Sufficient cash flow for operations and debt
- Positive year to year cash balance

Management and Governance

- Strong/Stable/Experienced management with program and financial expertise
- An engaged board with relevant expertise
- Well-developed infrastructure

What Lenders Look For

Planning and Reporting

- Timely and accurate reporting, analysis, audits, and financial statements
- Consistent accounting practice
- Business plan including analysis of program and financial strategies, multi-year projections, and adjustments as needed
- A plan for growth/ change if applicable

Repayment Sources

- Consistent unrestricted operating surpluses sufficient for operations and debt
- Repayment sources committed or confirmed
- Repayment sources available and budgeted by funder

What Lenders Ask For

Financial Information

- Audited Financial Statements
- Budgets
- Year-to-date financial statements
- Existing debt and borrowing history
- If repayment through fundraising, then a fundraising plan

Organizational Information

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

What Lenders Ask For

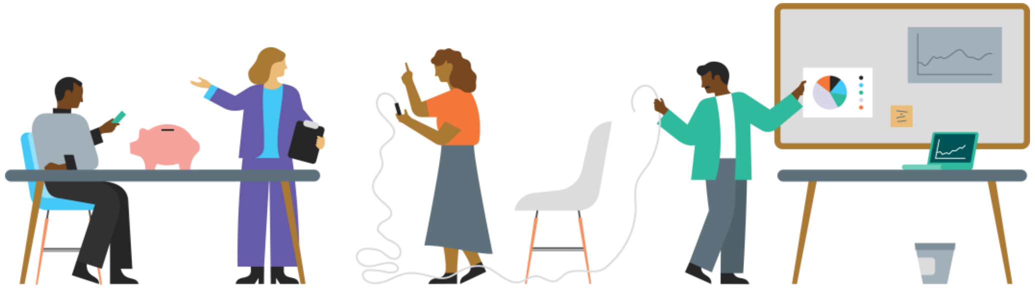
Project Information

- Working Capital
  - Copies of major executed contracts
  - Monthly cash flow analysis
- Facilities
  - Project description, scope of work
  - Project budget
  - Operating Proforma
  - Copies of lease, contract of sale, construction and architect's agreements

Considerations Once a Loan is Secured

Compliance

- Most issues in loans come from agreeing to something that an organization cannot realistically achieve.
- Know the commitments in the covenants and regularly monitor for compliance.
  - E.g. some loans require a certain level of operating surplus
  - Consider developing a compliance dashboard.
- Update workplans to ensure reports and compliance documents are developed and reviewed BEFORE reporting to a lender.
  - E.g. update cashflows regularly, ensure audits are conducted on time
  - Note: Staff capacity to develop compliance documents can be a hidden cost of a loan
- Consider compliance when making any strategic decisions that affect your ability to comply with the terms of a loan.



Considerations Once a Loan is Secured

Repayment Considerations

Lines of Credit and Bridge Loans

- Continuously monitor your cash position to know when would be a good time to repay the loan. This may mean paying off part of the loan or the entire loan principle.
- Anticipate any changes needed to the repayment schedule including payment dates and payment amounts.
- Monitor changes to payment sources (e.g. a grant timeline) that may affect the repayment timeline.

Amortizing Loans

- Use agile budgeting practices (e.g. flexible, scenario based, regular reforecasting) so that adjustments can be made throughout the year to make payments on time.
- Regularly monitor cash position for ability to meet both operating expenses and loan repayments.

Considerations Once a Loan is Secured

Maintaining Your Relationship with Your Lender

- Keep lenders excited about your mission: send them regular mailers, share impact updates, invite them for site visits.
- Be in regular contact with your lender, especially if you have any concerns around repayment. Transparency is key to maintaining a positive and flexible relationship with a lender.
- Acknowledge that if the debt is not working under the current terms, it may need to be restructured.
  - E.g. changing a line of credit to a fixed term loan with scheduled payments

Role of the Board

- As the ones with primary fiduciary responsibility for nonprofits, boards should be involved in any decisions around pursuing debt and should understand the role of debt in the long-term financial health of the organization.

Thank You!

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Metro Denver Nonprofit Loan Fund

Technical assistance and no-interest loans for nonprofits in Metro Denver.

About the Fund

The Metro Denver Nonprofit Loan Fund aims to counter historic disparities in access to capital while financially supporting the Greater Denver region's nonprofit ecosystem and the services it provides.

Loans Will Provide

Stabilization: Financial assistance for smaller nonprofits whose work must continue.

Sustainability: Opportunity for nonprofits to develop new and diverse revenue sources.

Experience: A low-risk way for nonprofits to gain experience managing debt and building credit.

Growth/Scale: Opportunity to increase nonprofit service capacity.

Why Now?

- Black, Indigenous & people of color (BIPOC) individuals and women are being disproportionately harmed by COVID-19's health and economic impacts, and the nonprofits that serve them need enhanced funding.
- While the federal government has allocated funding to help small businesses and nonprofits survive the pandemic's economic impact, recent reports indicate that organizations led by women and individuals of color have struggled to access this funding.

Metro Denver Nonprofit Loan Fund

Benefits

When organizations led-by and/or serving BIPOC individuals and women receive sufficient funding, they excel. A no-interest loan program is a low-risk way for nonprofits to learn how to manage debt and build credit.

Loans also enable funders to reinvest repaid dollars back into the community, creating a sustainable funding community resource.

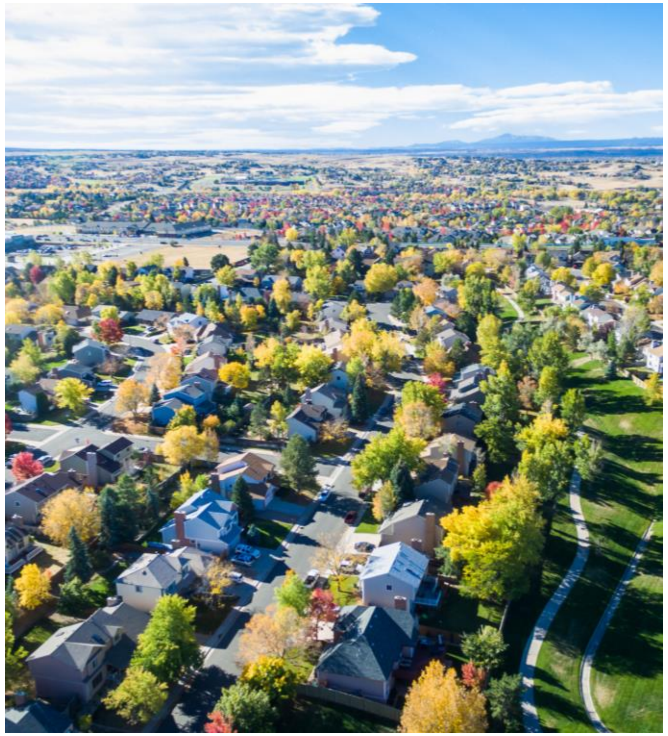
About the Loans

- Between $50,000 - $250,000
- 0% interest
- Unsecured
- Terms of up to 48 months
- No payments for the first year

Metro Denver Nonprofit Loan Fund

Eligibility

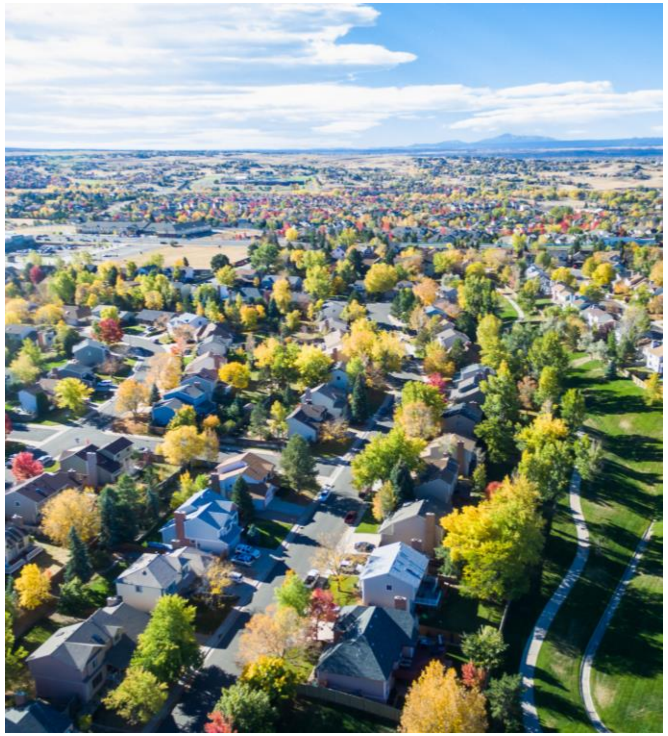
- 501(c)(3) nonprofits located in the seven-county Denver metro area (or that have an endowment with Community First Foundation, Rose Community Foundation or The Denver Foundation).
- Organizations with demonstrated financial need and indication that loan capital is the appropriate financial tool to meet that need.
- Organizations that are led by and/or serving BIPOC individuals and women.



Metro Denver Nonprofit Loan Fund

Eligibility (continued)

- Organizations with budgets between $500,000 and $5 million.
- Organizations with unrestricted pre-depreciation operating surpluses in two of the last three fiscal years.
- Organizations with no late payments on other debt in the 12 months prior to March 2020.



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Questions and Discussion

Please visit **DenverNonprofitLoanFund.org** to learn more and to sign up to be notified when the fund launches.

And don't forget to fill out the very brief exit survey following this presentation!

Metro Denver Nonprofit Loan Fund