A Publication of semble

THE ESSENTIAL GUIDE *to* FINANCING OPTIONS *for* NONPROFITS.

Bank Financing

Capital Fund Campaigns

Social Investing & Crowd Funding

Hard Money Lending

Bond Financing

Personal or Private Loans

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Introduction.

As a leader of a nonprofit organization, you've got some components to your make up that help **propel** your organization forward.

- Passion and Concern for your Supporters
- A Compelling Belief and Vision that Instills Hope
- A Willingness to Work Hard to Achieve the Mission
- Operations in one or more Locations…whether you rent or own

These are all critical to **Lasting Impact**…and they encourage **"Community Engagement."**

That's the **good** news. Some would call this **"The Dream."**

(By the way…thanks for what you do! Seriously. You make the world a better place.)

Then there's the ongoing need facing nonprofits: **Resources**
Some would call this **"The Reality."**

Money is always a topic for 99.9% of all NPOs.

- Monthly or seasonal cash flow shortages.
- The need for more money for operations and expansion to better serve the needs.
- Unplanned expenses.
- Facility fixes/upgrades.

The facilities that are the home base of your mission might be too small or lack the functionality to help you soar.

(Oh, and the roof might leak too.)

Other components of **"The Reality" could be:**

- **You might struggle with community volunteers:**

Not enough of them.

They come…they go.

Always recruiting and inevitably retraining in your pseudo-training room.

- **New supporters are getting harder and harder to find…and then actually keep.**

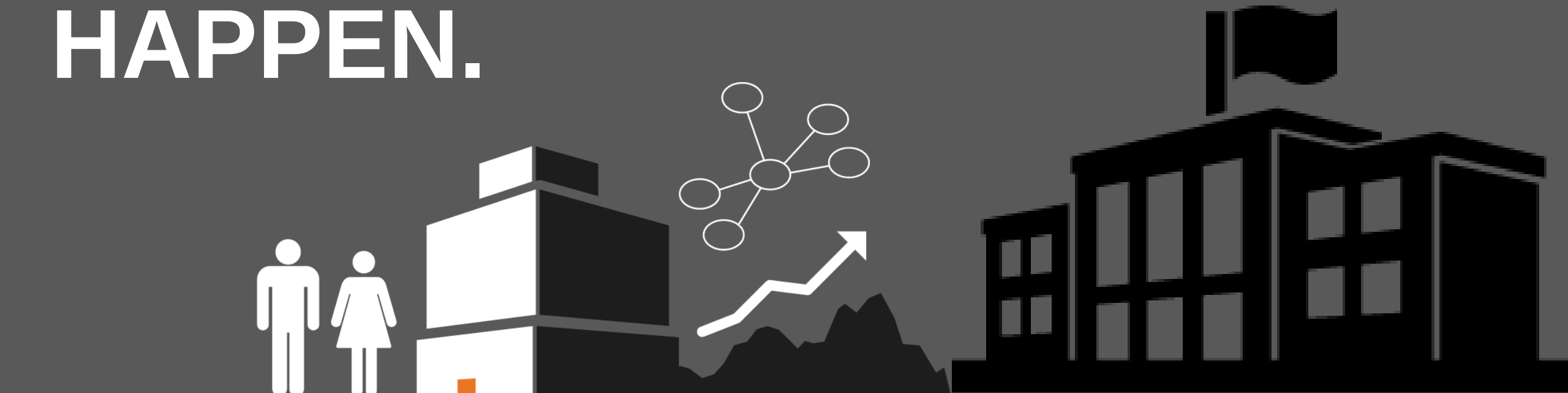
Donation dollars continually fluctuate, making it difficult to plan.

Your list of former supporters makes you, **"unsettled to say the least."**

Bottom Line:

You need your facilities to equip your volunteers, engage your supporters, put down roots in the community itself, empower your staff/board, and most of all…

MAKE. THE. MISSION. HAPPEN.



But buying, expanding, or refinancing a property can be confusing.

- "How much down payment will I need?"
- "What interest rate is good? What's bad?"
- "Can I even *reach* this financial goal?"
- "What are my options?"

NOT TO WORRY!

This handy "Essential Guide to Finance Options for Nonprofits" is here to help you weigh your options and start the right conversations in your organization.

This Essential Guide Will Review:

Financing Option 1:

BANK LOANS

Bank loans (also referred to as "traditional financing") are the most familiar and common type of lending since lending is one of the main functions of a bank to begin with.

Banks borrow money at a low interest rate through checking and savings accounts, CD (Certificates of Deposit), and other products…and then they lend this money out at a higher interest rate to people or organizations in need of a loan. The bank earns their profit off of this difference in interest rates called "the spread."

In simple terms, a bank "borrows $ for less, then loans that $ out for more."

PROs

Most familiar option.

There is 100% assurance of getting funded, as long as the loan is "approved."

Loan process is mostly limited to gathering financial paperwork and identifying interested banks.

NPO Boards and decision-makers find it an easier route because of the minimal effort required on their part.

Less time commitment from the NPO Board and leadership.

CONs

Interest rates are usually higher for most NPOs, since they are considered "riskier loans" for the bank.

Down payment (cash needed in hand, up front) can be significant, usually 30-40% of the total you need.

The application process can be intimidating.

The fees associated can be expensive (e.g., appraisals and other costs of financing).

Loan typically resets every 5-7 years, resulting in interest rate uncertainty due to future economic impact and/or the financial health of the NPO.

Loans are amortized and can have aggressive payment schedules that lower discretionary dollars for the NPO.

No donor relationship enhancement.

Possible pre-payment penalties during the early years of the loan.

Impact to Effort Summary

Bank Financing

Time Frame Until Funding Availability

Required Effort by Leadership

Out-of-Pocket Up-Front Cost

Giver Relationship/Enhancement Impact

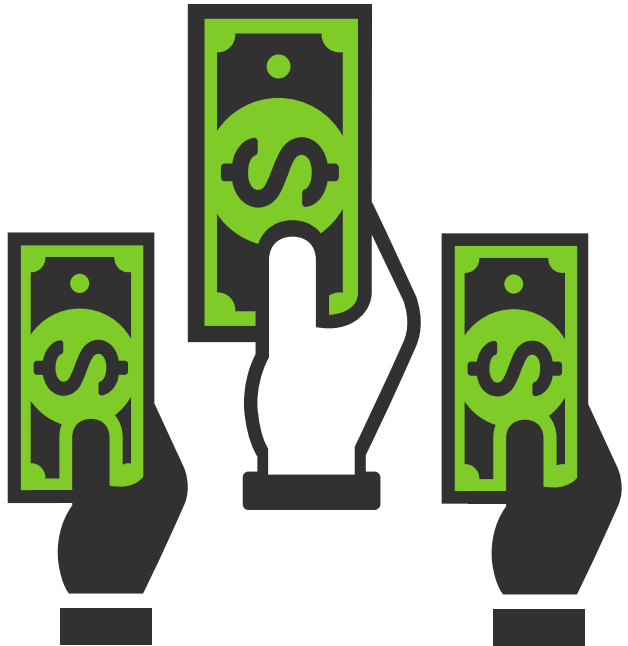
Total Cost of Financing

Good Stewardship of Resources

Social/Community Impact of Financing

Financing Option 2:

CAPITAL FUND CAMPAIGNS



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Unlike debt financing, a Capital Fund Campaign does not establish an obligation that requires repayment. It is a targeted *donation* campaign whereby funds are pledged and usually takes multiple years to receive.

The campaign is usually run by a professional campaign consultant or company whose primary focus is to assess a NPO's giving capacity based on historical giving records, demographic assessments, and strategy analyzing. Following the assessment, a phased approach to supporters is outlined and, based on the plan, donors are approached with the "ask." They are usually asked to make a "Once In A Lifetime Gift" if they have the resources available immediately. If they don't have the capacity, they are asked to make a "large commitment that can be made in monthly/quarterly chunks." The gifts that are received are just that: **gifts.** No future monthly payments are therefore required by the nonprofit unless the campaign falls short of the goal and other financing is needed to make up the gap.

PROs

The acquired funds are donations…free money.

The resulting interaction with donors can, based on the approach, result in positive donor cultivation and deeper relationships.

Those close to the NPO, regardless of their financial affluence, can get involved by supporting the campaign with their resources.

CONs

A failed campaign that doesn't reach its goal can leave an organization in limbo unless a back-up plan is in place.

Nonprofit leaders often have a large distaste in their mouth about asking for large amounts of donated dollars within their circles of relationships.

Funding of the project can take 2-5 years to complete due to sporadic funding.

Normal donations and financial support is often impacted negatively due to donor fatigue.

Up front, out-of-pocket costs can be $30,000-50,000 during what is referred to as the "assessment period," with no guarantee the campaign will even start.

The resulting interaction with donors, based on the approach, can result in negative donor cultivation and even lost relationships.

Process can be very stressful (some say more NPO leaders resign within the first year of a Campaign than any other situation the organization faces).

Impact to Effort Summary

Capital Fund Campaigns

Time Frame Until Funding Availability

Required Effort by Leadership

Out-of-Pocket Up-Front Cost

Giver Relationship/Enhancement Impact

Total Cost of Financing

Good Stewardship of Resources

Social/Community Impact of Financing

Financing Option 3:

SOCIAL INVESTING LOANS

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A nonprofit in need of capital actually has several options (as this handy guide is showing). This means they can make **an intentional decision** about their solution.

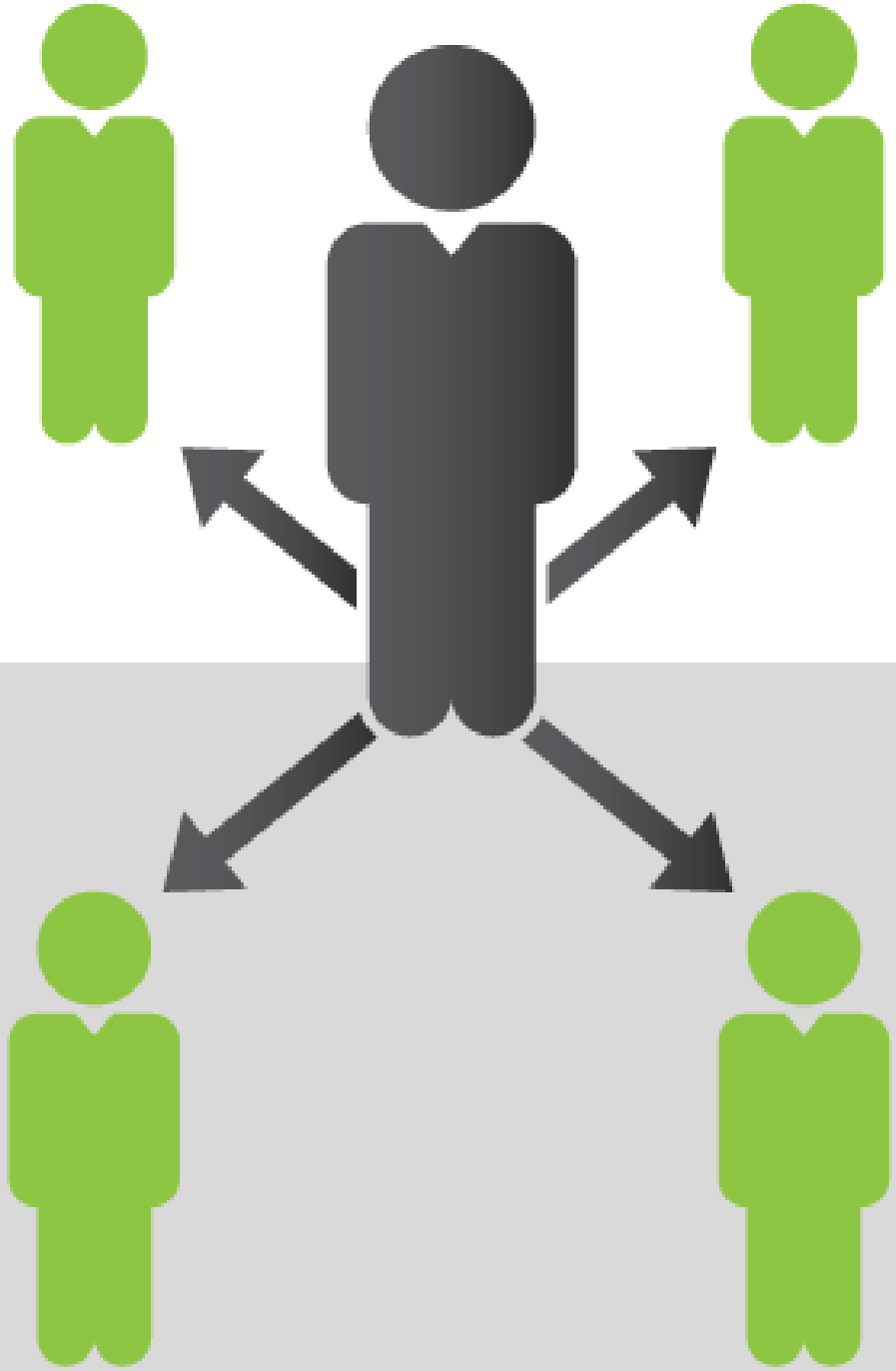
If the NPO decides to take out a loan for its need…and assuming the NPO is credit-worthy to do so…the lender that is selected will realize a financial profit as the organization makes its future loan payments. The lender will be happy to receive this benefit.

The nonprofit has the option to determine who it wants the **recipient** of the interest dollars to be.

But imagine the community impact that could happen if the nonprofit ***intentionally*** allowed its ***supporters*** to be the **"recipient of those dollars?"**

THIS IS CALLED:

SOCIAL INVESTING.



Social investing occurs when a nonprofit in need of a loan makes an *intentional decision* to choose to pay their supporters each month instead of paying an institution.

The nonprofit's line of thinking goes like this:

"If we're going to pay someone every month, let's pay the people who love our nonprofit! Let's allow **THEM** to be 'the recipient of those payments' if we're going to make payments in the first place! Let's let them reach their personal financial goals while they help us reach ours."

Again, to be clear: Social investing gives the nonprofit the opportunity to fund the loan through its constituents, thus giving the supporters and constituents the chance to be "the beneficiaries."

PROs

Minimal out of pocket expense up front.

Low or no % down payment required.

Lowest minimum required monthly payment of all debt options (usually 40-60% less monthly than traditional financing payments).

Supporters that participate are the recipients of the payments made by the NPO.

Usually results in more committed supporters wanting to serve the NPO.

Former donors who have stopped supporting the NPO are often re-engaged without being asked to give.

Gives NPO a chance to engage new relationships without asking for donations.

Financial impact for NPO can be significant due to the low-cost loan payments and new donations acquired.

Gives NPO Board a tangible way to get more involved in the mission of the organization without having to seek donations.

Usually no appraisal is required, saving the NPO $5,000 - $10,000.

CONs

Process requires more involvement from the Board of Directors compared to just “applying for a normal loan.”

Some out-of-pocket expenses are required up front, without assurance of success.

Understanding the process can take more initial “brain power” since most loans are funded through traditional financing.

Nonprofits who lack the resources or supporters might not be able to successfully fund a social investing initiative.

Impact to Effort Summary

Social Investing

Time Frame Until Funding Availability

Required Effort by Leadership

Out-of-Pocket Up-Front Cost

Giver Relationship/Enhancement Impact

Total Cost of Financing

Good Stewardship of Resources

Social/Community Impact of Financing

Financing Option 4:

HARD MONEY LOANS

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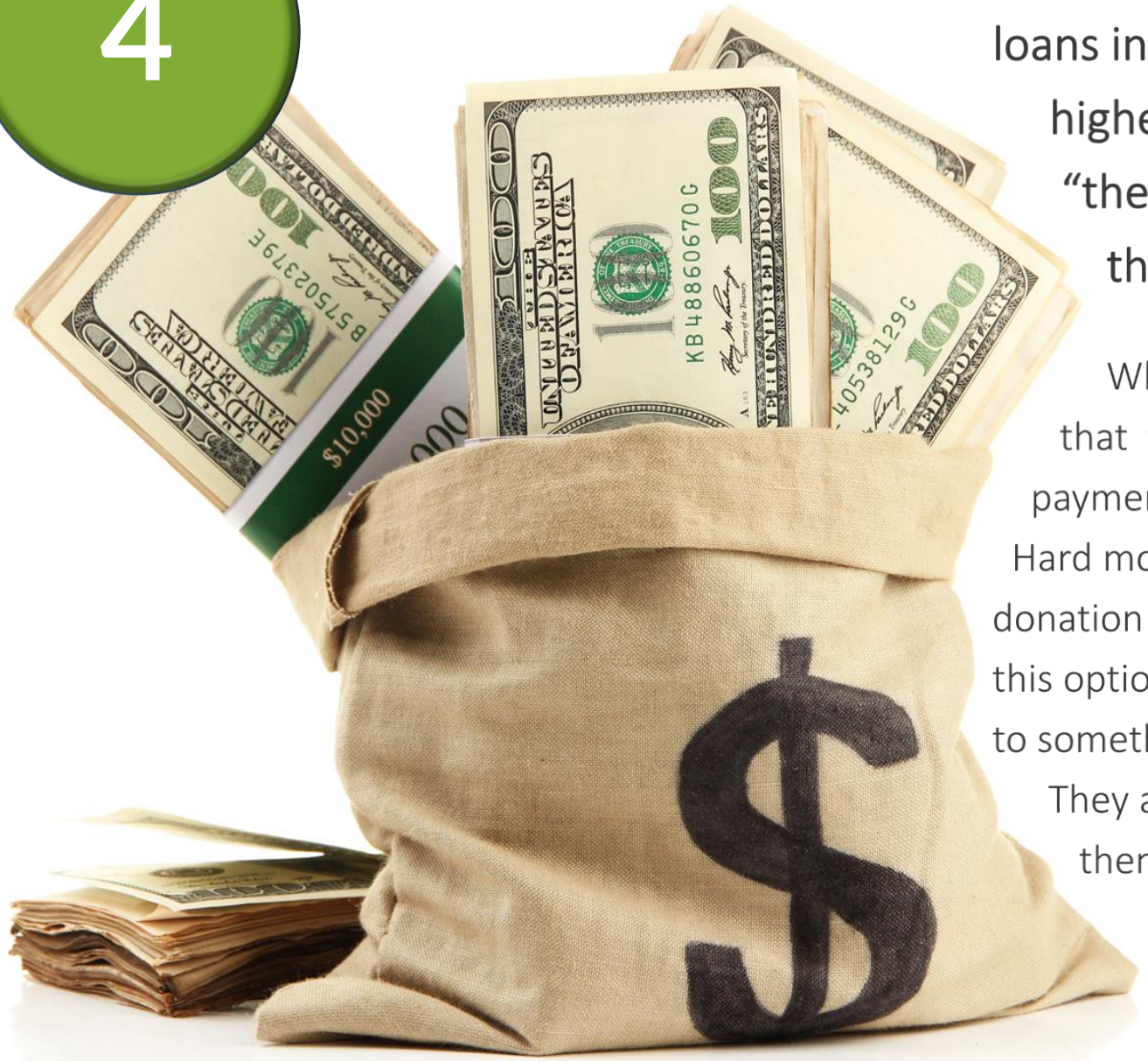


Hard money loans are different than traditional loans in that they are usually shorter-term, higher-payment loans that are often seen as "the last option" before the nonprofit simply throws in the towel.

Why? Because the interest/payments are so high that the nonprofit typically cannot sustain the payments long-term. Even if they can, they don't want to! Hard money loans are widely considered to be a bad use of the donation dollars that a NPO receives. Use caution if you're exploring this option and use legal counsel to make sure you're not committing to something in **"the fine print."**

They are often used to simply "get the property closed" and then transition the nonprofit to another type of financing (or so they hope).

Yikes.

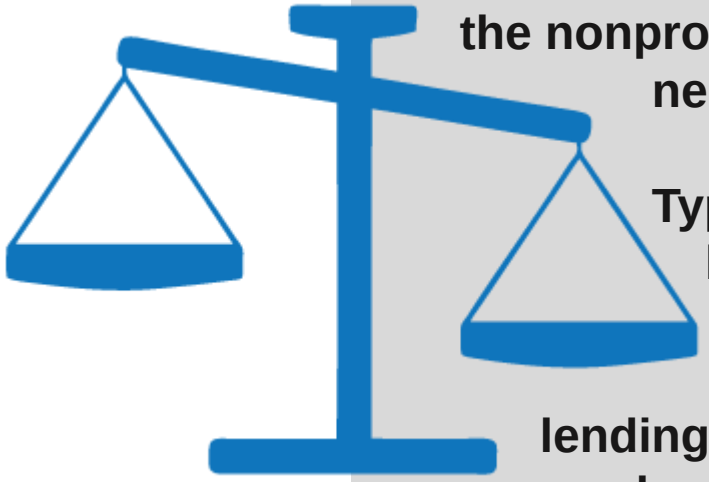
PROs

Funding can be very fast.

Can have lower underwriting requirements than traditional financing.

Usually pretty easy to get as long as the hard money lender likes the property details and borrower strength.

“Last option” when all else fails.



CONs

Interest is typically very high (10-14%).

Usually requires a large down payment or equity in the property.

Term can be very short, putting higher strain on the nonprofit to secure other funding or risk negative repercussions.

Typically not a sustainable solution long-term.

The perception of hard money lending has a negative connotation, which can hurt the NPO.

No donor relationship enhancement.

Impact to Effort Summary

Hard Money Loans

Time Frame Until Funding Availability

Required Effort by Leadership

Out-of-Pocket Up-Front Cost

Giver Relationship/Enhancement Impact

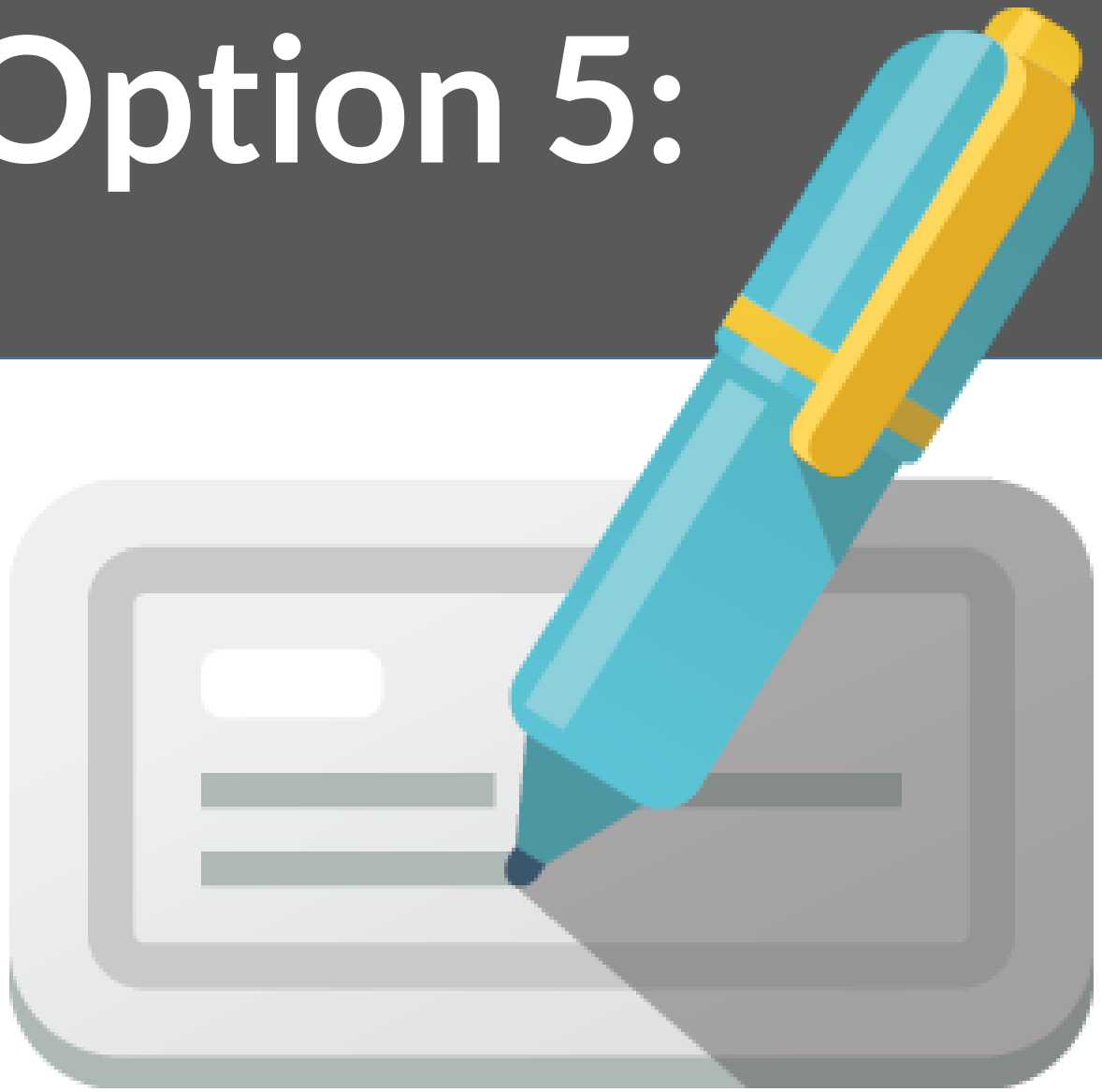
Total Cost of Financing

Good Stewardship of Resources

Social/Community Impact of Financing

Financing Option 5:

BOND FINANCING



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Bond financing is a unique type of financing used only by certain types of nonprofits.

There are many types of bond financing but the overall concept is this: a public offering is made for people to “buy bonds” and those dollars are gathered until enough capital for the project goal is reached. Cities and municipalities use bond financing for projects such as construction of roadways, bridges, public schools, or government buildings. There are also “private bond issues” that were popular with churches in the 1950’s to 1980’s although they are not as common anymore. An interest rate is offered and is built up annually and the total amount is then slated to be paid back at the end of the bond term.

PROs

CONs

Certain bonds have a broader marketplace of purchasers without being tied to the organization.

NPOs are usually able to lock in a fixed interest rate for longer periods of time.

Allows the nonprofit's supporters to also get involved with their investments.

Up-front costs for the bond offering can be expensive.

The ongoing cost of bond financing/fees can be very high.

The process of setting up the bond offering can take quite a long time before the launch can happen.

The appearance of "low interest" can be misleading due to the high cost of set up and financing fees.

The vetting process before approving the bond initiative is extensive.

The NPO may be required to secure a letter of credit from a bank, which could be difficult and/or expensive.

Impact to Effort Summary

Bond Financing

Time Frame Until Funding Availability

Required Effort by Leadership

Out-of-Pocket Up-Front Cost

Giver Relationship/Enhancement Impact

Total Cost of Financing

Good Stewardship of Resources

Social/Community Impact of Financing

Financing Option 6:

PERSONAL/PRIVATE LOANS

The final option to be covered is a personal or private loan. This occurs when an individual or group of individuals provides the funds through a loan directly to the nonprofit.

An example would be if a key supporter of the nonprofit has $500,000 in cash that they would use to fund a full purchase of a facility for the organization, bypassing the need for a professional financing option. An interest rate is agreed upon, an instrument or instruments are used to evidence the loan, and terms are defined. Payments are made directly to the personal/private investor by the nonprofit.

PROs

Funding *can* be very fast.

Typically lower underwriting requirements than traditional financing.

Can be a way to “give back to the investor” if they have always been a key supporter.

The resulting interaction with the investor can result in a positive and deeper relationship.

CONs

No buffer (or intermediary) for good accountability since the parties are dealing directly with each other.

Depending on circumstances, it can lead to a “conflict of interest” or expectation of control.

Exposure to lawsuits is higher since a professional group may not have formalized the participation.

Lack of formality can have a negative effect and hurt the relationship.

No giver relationship enhancement outside of the one investor.

Impact to Effort Summary

Personal/Private Loans

Time Frame Until Funding Availability

Required Effort by Leadership

Out-of-Pocket Up-Front Cost

Giver Relationship/Enhancement Impact

Total Cost of Financing

Good Stewardship of Resources

Social/Community Impact of Financing

CONCLUSION.

If you've made it this far, you might actually feel like you have a better handle on the topic of **"Nonprofit Financing Options."** Hopefully you've been able to weigh the options, look at the ups and downs of each, and begin to think realistically about your goals.

Here are some **final questions** for you to ask yourself:

1. What is our main goal financially?

Once you answer this, look back through the options in this guide and find the one that will most effectively help you reach that goal.

2. What am I personally willing to do to reach that goal?

Real leaders are in fact real leaders because they really lead. Sounds so simple, right? But you know by now that not all leaders are created equal. Decide how much you really want to reach that goal…how much you really want to MAKE THE MISSION HAPPEN even more than it already is.

3. What will we need to have or need to do to get there?

You can't do it alone. You SHOULDN'T do it alone. What tools will you need? What partners will you need? What can you do to make the goal achievable in an efficient and strategic way?

"Opportunity is missed by most people because it is dressed in overalls and looks like work."

- Thomas Edison

SEMBLE PROVIDES A COMPREHENSIVE SOLUTION TO NONPROFIT FINANCING THAT INCLUDES MANY OF THE OPTIONS OUTLINED IN OUR GUIDE.

OUR COMMITMENT: We exist to address financing at the Lowest Cost while:

(1) Providing greater assurance of funding your loan
(2) Increasing your impact and missional reach
(3) Expanding and strengthening your donor relationships

To explore your options in greater depth, contact one of our team members to receive a free consultation. We're here to serve you!

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