*Train the Trainer Notes – 1 Pagers*

**Family:** Financial Management and Fund Development

**Topic:** Debt

Webinar: NPP – Borrowing for NP/Mirco Business 7/18/2024

* NPP: Lending via financing
* Consulting: strategic advice
* Advocacy: Thought partnership, knowledge sharing, community engagement
  + What makes CNM unique to NPP

**Key Facts/Knowledge:**

Debt should fill a mission need; debt is NOT to fill a budget gap; you know how you will repay debt

**Types:**

1. Day to day operations: Working capital
   1. Line of credit
2. Bridge loan (bridge the time between expenses and when money will come in from a funder)
3. One off project
   1. Real estate, construction, renovations, equipment

FYI: Secured loans have collateral (what the lender will take if you don’t pay)

Who provides loans:

* Banks and credit unions – must get approved. Driven by profit model.
  + Lines of credit fluctuate since they are driven by profit
* Community development financial institutions
  + Good for NP.
* Foundation
  + Can behave like CDFI
* Government
* Individuals
  + Sometimes donors/board members will step in to help

As a reality: Nonprofits deal with cash flow challenges which makes loans a real thing

**Case study example: NP asking for $250,000 line of credit**

* Paying expenses in advance awaiting payment from government agency
* Anticipating 60 day delay
* To bridge the gap, seeking a line of credit

**Model/Framework:**

5 stages of underwriting process – 6-10 weeks once term sheet is signed

1. Intake: Inquiry, application, intake (2 weeks+)
   1. Lender wants due diligence documents and information to analyze and determine of loan is a good fit
      1. Origination fee
      2. Interest rate
      3. Time period of active line of credit (has a deadline)
      4. Mission, governance, 3 year of audited financials, cash flow projections, current year’s budget, Aging Receivable reports
   2. Borrower wants to know about terms, provides financial statements, explain project background. Must provide all information.
      1. Shops different vendor
2. Term sheet: tells the client the offer
   1. With loan originator and underwriter
   2. Preliminary loan structure, interest rate lock in for 60 days, non-binding commitment, loan amount, pre-payment options and penalties, collaterals, costs
   3. Borrow pays good faith deposit
   4. Amount is linked to manageability and term length
   5. “Revolving” Line of Credit – means you have access to maximum amount (you can borrow repay and borrow repay). Like a credit card.
      1. Non-usage fee: $250,000 and didn’t use it for the whole year, you will be charged a fee on the balance you did not draw (it’s a way for lenders to make money)
   6. Legal Fee:
      1. This is for internal staff who will review the loan agreement to provide opinions.
      2. Pro-bono council becomes good here – ask for them
   7. Collaterals:
      1. Investment accounts as collaterals
      2. You can’t have 2 financial institutions using the same collaterals for different loans. **DO NOT make the loan over collateralized** – they take claim to more assets than they need
      3. UCC-1 is a database
         1. Lenders who provide loan to borrows and take some asset as collateral so other lenders can see and understand the asset is taken
   8. Advance rate:
      1. Receivables: Contracts experience payment delays
         1. This is seen as the source of repayment
         2. Borrowing base: amount agency is owed seen in accounts receivable, aged less than XX amount
         3. 80% of receivables is the amount you can borrow
   9. Clean up amount:
      1. 30 days must be 0 balance (part of the planning process on cash flow and payments)
3. Underwriting – this is where the tailoring begins, where debt addresses needs; IDs future revenue, address risks
   1. Underwriter looks at finances and presents everything to a credit committee. It is a lengthy process. Goal: Loan meets your needs and gets repaid
   2. Lender: 3rd party reports, present load to review committee, detail reviewed of project and financial information
   3. Borrower: Additional information/documentation
   4. This results in the commitment letter
      1. You have to understand the covenants
4. Closing
5. Post-closing
   1. Regular check in
   2. Most issues come from agreeing for something you cannot realistically achieve

**Strategy Notes:**

* Understand what this means
* Communicate, communicate, communicate!