

When is debt right for my nonprofit?

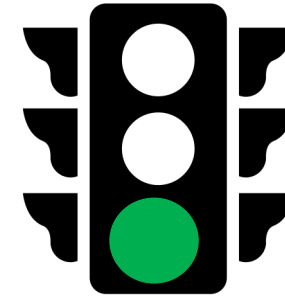


When is Debt a Good Idea?

Good debt is mission-critical, a matter of timing, and repayable

Debt can be helpful if all of these are true:

- ✓ The need is mission-related
- ✓ The need for cash is a matter of timing:
 - You anticipate a temporary “cash crunch” at some point in the year, or
 - You’re making a large purchase now that you’ll pay off over time
- ✓ You have sufficient future revenue: enough to cover normal operating costs AND debt service payments*



When these are all true, debt can be helpful to achieving your organization’s goals!

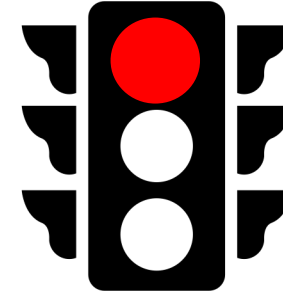
*Debt Service Payments = all payments needed to pay off the loan, including interest, principal, and any fees

When is Debt Not the Answer?

When is not well used, debt can harm the mission

Debt may not be the right tool if any of these are true:

- ❌ You have a significant gap in your organizational budget without the ability to make debt service payments
- ❌ You are trying to fill a funding gap left by a donor who stepped away
- ❌ You don't know how you'll repay the loan



When any of these are true, taking out debt might weaken your organization.

Never take out debt if it might be harmful down the road.

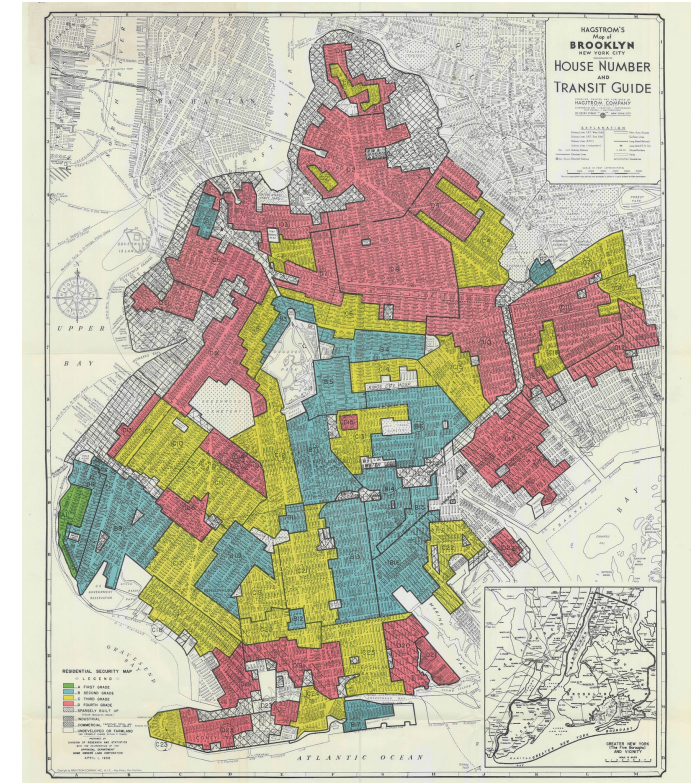
Speaking of Harm: Power Dynamics of Debt

Debt is more complicated than red-light/green-light

Black, indigenous, and people of color have deliberately and systematically denied access to this tool, individually and as leaders of their organizations, historically and still today.

Lenders have a lot of power to correct this injustice.

Even the most flexible lender can unintentionally reinforce the inequitable systems within lending.



1938 Home Owners' Loan Corporation map of Brooklyn.
Credit: *National Archives and Records Administration, Mapping Inequality*

More Questions? Check out the other videos in this series:

Taking on Debt: The Basics

1. What Is Debt?
- 2. When Is Debt Right For My Nonprofit?**
3. What Lenders Look For
4. Types of Lenders
5. The Lending Process

You just
watched this

Important Steps in the Lending Process

6. Initial Intake Call
7. Understanding the Term Sheet
8. Underwriting
9. Closing & post-closing