What Is Debt?

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Debt is borrowed money that you will pay back to a lender at a predetermined time

Debt is a **financial tool** – one of many in a nonprofit leader's toolbox!

- Debt is always supplementary to your other financial tools (like revenue).
- It has to do with timing: you don't have the money now, but you will in the future
- When well used, it is a way to achieve your mission.

Like any tool, sometimes it is exactly what you need, and other times it is not.

Lending versus Granting

Debt is NOT a grant! It is NOT revenue!

What is similar

- Build a relationship with the funder
- Successful relationship relies on trust and information
- Majority of information flows one way (nonprofit → funder)

What is different with a loan

- You have to pay this money back!!!!!!
- $$ – it costs money to borrow money
- Instead of grant reports focused on narrative, you have regular financial reports
- A grant program officer focuses due diligence on programs, while a loan officer focuses due diligence on financials
- If you check all the boxes, a “No” is unlikely

Why Do Nonprofits Borrow Money?

To fulfill a specific need that can't be met by other funding sources

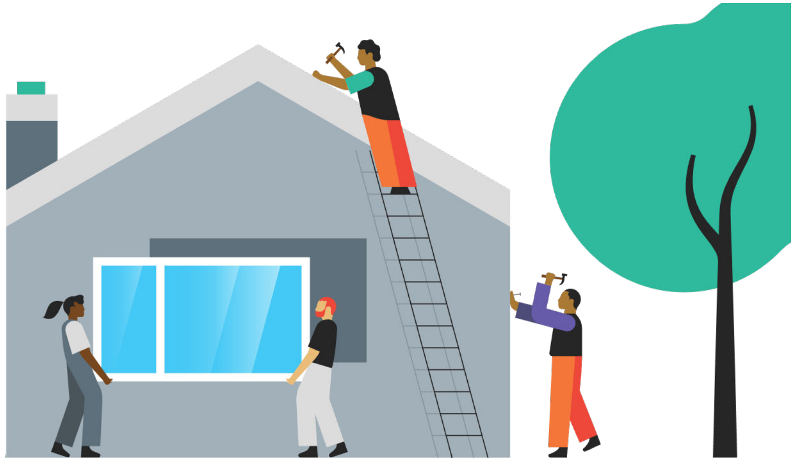
Debt can provide working capital*

- Debt can be easier, faster, and more reliable than waiting for grants or regular revenue
- Working capital might include:
  - Cushion or manage seasonal swings in revenue
  - Cover gaps in cash related to timing of funding
  - Back-up for day-to-day operating cash needs

*Working Capital = money in your operating account to pay for daily expenses

Debt can help buy a financial asset

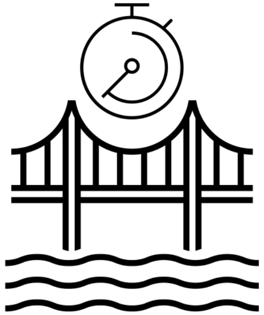
- Many financial assets are too big for grants or regular revenue to cover
- Financial assets usually bought with debt:
  - Facility purchase, construction, or renovations
  - Equipment purchases



Types of Debt

Day-to-Day Operations: Working Capital

- Line of Credit
- Bridge loan
  - A “bridge” between when you pay for expenses and when you get money from a confirmed, secured funding source
  - Ex/ you have a reimbursement-based contract that pays you ~4 months after you submit expenses



One-off Project: Fixed Asset

- Real estate acquisition
- Construction, renovations, redevelopment
- Equipment

Secured (usual) or Unsecured (rare)

- *Secured* means the loan is backed by *collateral*, an asset that the lender will take if you can’t repay the loan (a back-up repayment source).

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