

# When is debt right for my nonprofit?

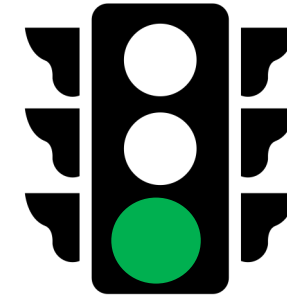


# When is Debt a Good Idea?

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!**

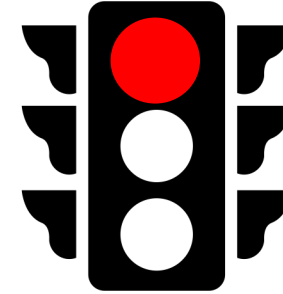
\*Debt Service Payments = all payments needed to pay off the loan, including interest, principal, and any fees

# 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.**

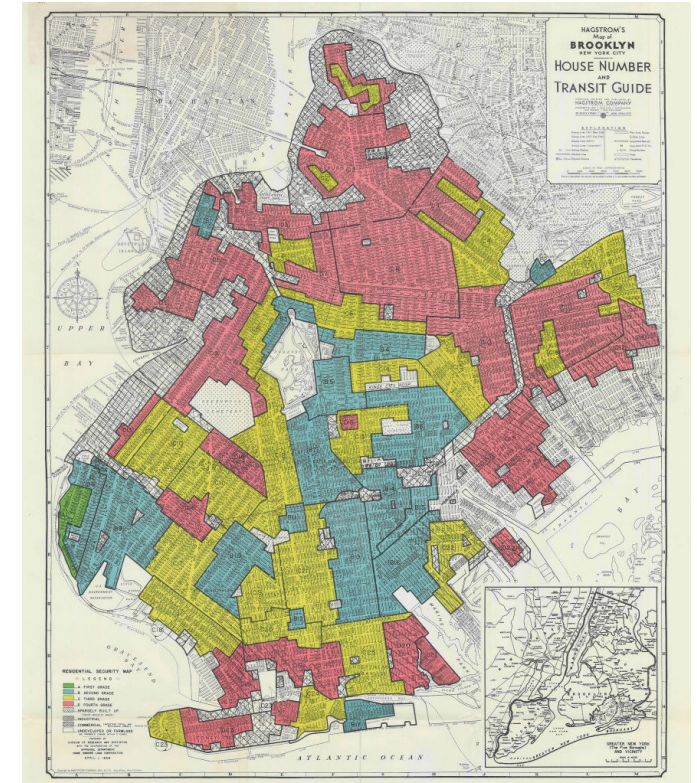
# Speaking of Harm: Power Dynamics of Debt

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