A Beginner's Guide to Debt for Nonprofits – Video Series

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

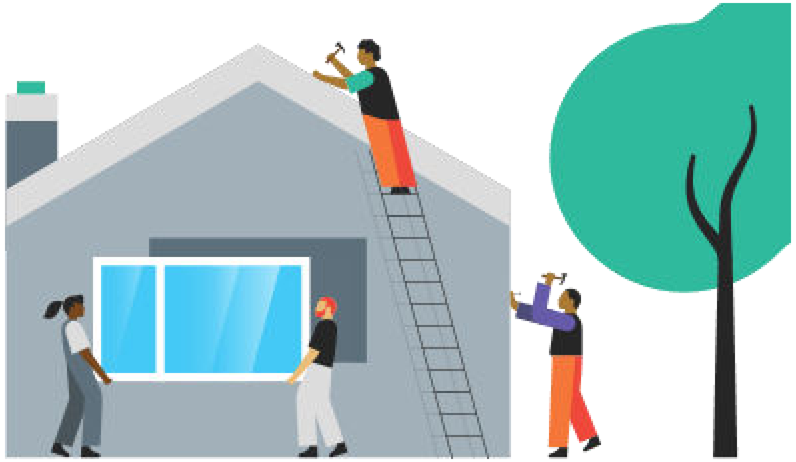
Debt can provide working capital*

- 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

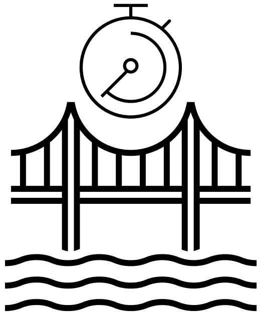
- Many financial assets are too big for grants or regular revenue to cover
- Financial assets usually bought with debt:
  - Facility purchase, construction, or renovations
  - Equipment purchases



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:

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

