Underwriting the Non-Profit Organization

—Cathy Niederberger
PNC Bank
Are you a Community Development Lender?

Introduction - Role of the Community Development Banker

- **Traditional Lender**
  - Business credit policies
  - Measurable goals
  - Easily booked deals

- **Community Development Lender**
  - CD lending credit policies
  - Measurable goals
  - Involved early
  - Identifies potential partners
  - Manages internal expectations
What are “typical” Community Development Non-Profits?

Assuming it serves primarily low or moderate income people, the NPO may focus on

- Arts and Culture
- Physical Neighborhood Revitalization
- Social Services
- Child or Elder Care
- Education
- Health Care
- C. D. Finance (CDFIs)
- Faith-Based Activities
What is a “501 (c) (3)”?

**Internal Revenue Code Section**

- **To qualify for tax exempt status NPO must:**
  - Be organized and operated exclusively for religious, educational, scientific, or other charitable purposes
  - Not participate or intervene in political campaigns
  - Not engage in illegal activities or violate fundamental public policy
What Should I Know About This NPO?

What is included in Qualitative Analysis of an NPO?

- Type of Organization
- Mission or affiliation
- Formation and History
- Leadership including key management, staffing, Board of Directors
- Mission, activities, tracking results and community impact
- Membership Demographics
- By-Laws
- Reputation
- Critical Issues
- Infrastructure
What is included in Quantitative Analysis?

- Current Budget
- Previous years budget vs. expenditures
- Budget Projection
- Annual reports/financial statements
- Capital Campaign Plan to support loan (if applicable)
- Report on previous Capital Campaigns (history of fund raising)
- Cash Flow Analysis
- Debt Service Analysis
What is different about Not-For-Profit accounting?

- The underlying business purpose is not focused on making a profit.
- The “equity section” is called Net Assets.
- Net Assets are categorized as Unrestricted, Temporarily Restricted, or Permanently Restricted.
- Required financial statements include:
  - Statement of Financial Position
  - Statement of Activities
  - Statement of Cash Flow
Commonly Used Financial Ratios

- **Liquidity Ratios**
  - **Current Ratio** = Current Assets/Current Liabilities
  - **Cash on Hand** = [(Cash + Investments) x 365]/(Total Expenses – Annual Depreciation)
  - **Payables (in days)** = (Accounts Payable x 365)/(Total Expenses – Annual Depreciation)

- **Solvency Ratios**
  - **Operating Reserves Ratio** = Unrestricted Net Assets/Total Assets
  - **Fund Balance Composition** = Unrestricted Net Assets/Total Net Assets
Commonly Used Financial Ratios (continued)

— **Savings Ratio** = an indicator of profitability = \((\text{Total Revenues} - \text{Total Expenses})/\text{Total Expenses}\)

— **Contributed Revenue Ratio** = a funding diversity ratio = \((\text{Contributions} + \text{Net Special Events})/\text{Total Revenue}\)

— **Concentration Ratio** = a funding diversity ratio = \((\text{Highest Revenue Stream}/\text{Total Revenues})\)

*Ratios are indicators and ratio trend analysis gives a good sense of how the organization is performing.*
What are common types of loan requests?

- Predevelopment
- Construction Loans
- Lines of Credit
- Bridge Financing
- Term Loans
- Standby Letters of Credit
- Machinery and Equipment
SUMMARY

- Traditional vs Community Development Lender
- Typical CD NPOs
- 501 (c) (3)
- Qualitative Analysis
- Quantitative Analysis
- Types of Loan Requests
Questions