



Underwriting the Non-Profit Organization



—Cathy Niederberger
PNC Bank

Are you a Community Development Lender?

Introduction - Role of the Community Development Banker

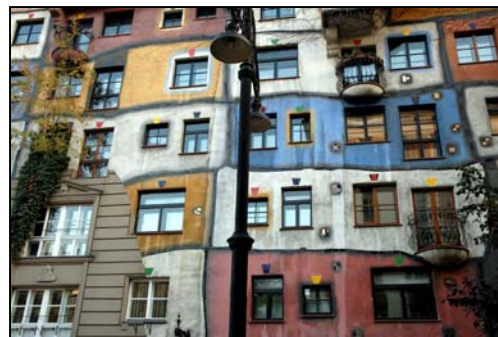
- **Traditional Lender**
 - Business credit policies
 - Measurable goals
 - Easily booked deals
- **Community Development Lender**
 - CD lending credit policies
 - Measurable goals
 - Involved early
 - Identifies potential partners
 - Manages internal expectations



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 Should I Know About This NPO? *(continued)*

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** = $[(\text{Cash} + \text{Investments}) \times 365] / (\text{Total Expenses} - \text{Annual Depreciation})$
- **Payables (in days)** = $(\text{Accounts Payable} \times 365) / (\text{Total Expenses} - \text{Annual Depreciation})$

- **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

