

NEW JERSEY COMMUNITY CAPITAL

Financing Your Nonprofit Facility

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Today's Agenda & Learning Outcomes

- What Lenders Look for in a Borrower
- What Lenders Look for in Underwriting a Project and the Underwriting Process
- Options to Structure a Transaction
 - Financing options (loan products, sources of financing)

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The Borrower

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Life Cycle of Borrowers

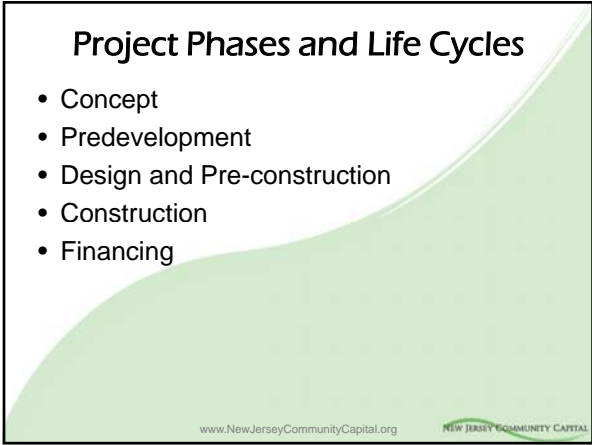
Facility needs and financing capacity evolve as an organization matures



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Project Phases and Life Cycles

- Concept
- Predevelopment
- Design and Pre-construction
- Construction
- Financing

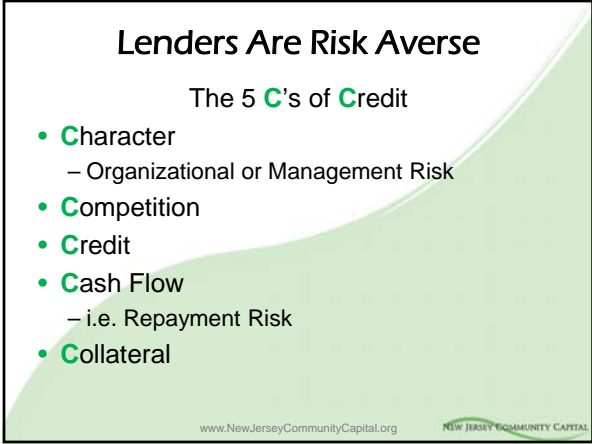


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Lenders Are Risk Averse

The 5 C's of Credit

- Character
 - Organizational or Management Risk
- Competition
- Credit
- Cash Flow
 - i.e. Repayment Risk
- Collateral



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What Are The Risks?

- Organizational risk
- Construction risk
- Repayment risk
- Collateral risk
- Funding risk

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Strong Applicants Will...

Show Lenders How Risks Will Be **Mitigated!**

- Strong management
- Strong board
- Quality program
- Positive financial trends

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Evaluating Potential Borrowers

- Program and Performance
- Organizational Capacity
- Financial Management and Capacity

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Borrowers Need to Demonstrate

Governance

- Established organization
 - Documents in place
 - Controls established
 - Planning process
- Committed Board
 - Well defined roles and responsibilities
 - Community representation
 - Diverse skill sets
- Succession Planning

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Borrowers Need to Demonstrate

Financial Control & Sustainability

- Credit and Financial History
 - Audits
 - Quarterly (“interim”)
 - Balance sheet
 - Income statement (P&L; “budget to actual”)
 - Tax returns
- Cash Flow Projections
 - Net operating income and net income
 - Reasonable revenue and expense projects
- Timely Reports

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Red Flags



- High staff/board turnover
- Low staff morale
- Poor financial performance
- “Founder-itis”
- Negative Press
- No relationship with the community
- Lawsuits, legal issues, etc.

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Indicators of Success

- Realistic projections
- Not administratively heavy
- Excellent program design and performance
- Fundraising efforts (although excessive reliance can be problematic)
- Known and respected in the community

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The Project

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Key Components for Lenders

- Experienced development team
- Realistic timeline
- Adequate budget
- Sufficient collateral

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Borrowers Need to Demonstrate

- Internal Capacity
 - Key Use of Board or advisors
- Professional Capacity

Project Management

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Needed for Project Budget

- Acquisition
- Hard costs
 - Construction
- Soft costs
- Contingencies
 - Minimum 10% construction and 5% soft cost
- FF&E
- Closing costs & financing fees

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Needed for Project Timeline

- Finding a site
- Appraisal
- Environmental
- Zoning
- Design
- Permits
- Construction bids
- Prevailing wage?

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The Loan Application Process

- Provide three years of audited financials
- YTD financial statements
- Project budget
- Project projections
- Executive summary of project
- Other information
- Refer to "Documentation and Due Diligence Checklist Handout"

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Structuring the Transaction

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Who Should Be The Borrower?

- Should it be the organization or a special purpose entity (SPE)?

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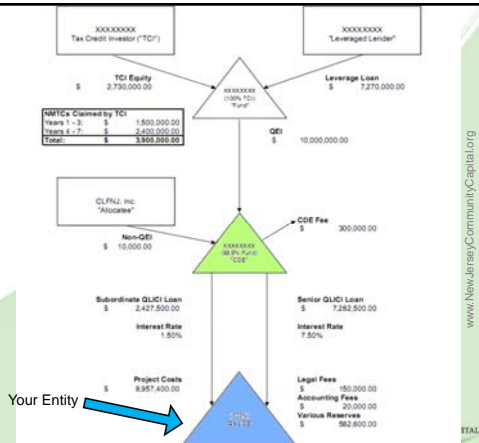
Sources of Financing

- Banks
- CDFI's
- State or local subsidy programs
 - Such as the HOME program
- Tax exempt bonds
- New Market Tax Credits
- Energy financing

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Typical "Leveraged Loan" NMTC Structure



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Types of Loans

- Construction
- Permanent
- "Mini-perms"
- Leasehold improvement
- Acquisition
- Predevelopment
- Working capital
- Bridge

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Loan Terminology

- Rates (Fixed and Variable)
- Amortization
- Term
 - May be different = Balloon
- Loan-to-Value
- Debt Service Coverage Ratio

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Key Aspects to Consider

- Collateral
 - Value of property
 - Side collateral (other real estate, cash pledges in CDs, equipment, etc.)
 - Credit enhancement or guaranty
- Cash Equity
 - Standard down payment is 20% to 30% at traditional bank
 - Usually 10% (or zero with special financing programs) at a CDFI

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Costs of a Loan

- Origination/Commitment fee
- Guaranty/Credit enhancement fees
- Legal fees (borrower and lender)
- Third party costs (external reviews, appraisals, financial certifications)
- Closing costs
- Construction monitoring fees
- Interest
- Late fees
- Prepayment penalties (also called prepayment premiums or “yield maintenance”)

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Loan Process and Timeline

- Pre-Application
- 3 months to 3 years
- Build equity for investment (often 10%)
- Acquire construction project capacity by retaining qualified (bonded) professionals
- Plan, plan, plan
 - Write business plan
 - Assemble financial and program records

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Loan Process and Timeline

- Application and Contact
 - 4 weeks
- Approval/Commitment Letter
 - 4 weeks
- Closing
 - 3 weeks to 6+ months
- Post-Closing
 - Multi-year relationship
 - Site visits

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Questions, Comments, Concerns?

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