

LOAN FINANCE: Have you considered all your options?

What is it exactly?

Loan finance is:

- Borrowing money from a bank or other credit institution with the expectation that you will pay it back over an agreed period of time.
- There would normally be a cost for borrowing the money, an agreed interest rate.

Why does it help?

Loans are useful:

- To provide funds when spare cash or reserves are not enough to cover an unusual or significant cost that you know you will be able to cover over a period of time. This could be to
 - Provide the investment for land, buildings, development, or refurbishment of your organisation.
 - Ease cash flow where gaps appear between paying out money on e.g. salaries and when guaranteed monies are coming in later e.g. grants.
 - Purchase equipment or other high cost, one-off items.
 - Kick starting new projects or ventures.
 - Ease cash flow when you are producing goods and services that require upfront investment, before earned income from their sales or delivery comes in.
- Money comes quickly – grant applications can take a lot longer.
- Loans are non-competitive. Often with grants you are applying with a number of others for a small pool of cash. Loans are different. If you meet the lender's criteria, you will usually be offered the loan.
- Loans are very flexible – grants are often restricted to certain kinds of activity. If you have a good business case with an idea that fits within your mission and is right for your service users, then a loan may be the answer.
- Loans demand a lot less monitoring and reporting. As long as the cash is paid when agreed, there are usually no extra demands and no requirement for reporting.
- Loan payments are made in advance, on meeting agreed milestones.
- Loans help diversify your income sources.

Key principles

- A loan requires pay back. Never take out a loan if you do not have a means to pay it back.
- Have a plan, know why you need the money and how long for. Create a business case.
- Know how you plan to pay it back and over what time period. Do the break even/payback analysis on your project.
- Have sound financial systems in place so that you are tracking your income and expenditure well and monitoring whether you are in line with your plans.
- Personal liability – no staff or Board/ Trustee Members would be personally liable for a loan unless they are part of an unincorporated organisation, or unless they act unlawfully or outside the organisation's governing rules. If your organisation is not incorporated it is unlikely you will be given a loan.
- Make sure that the Trustees/ Board have signed off the business case and the terms of the loan and are fully aware of the implications to the organisation and what level of support will be required to achieve payback.
- Make sure you can answer yes to the checklist on www.glossteppingup.org in the Loan Finance Stepping Up Guide.

Dos and don'ts

- Don't let the constitution stop you – making changes to it should be part of the preparation for the loan, if that is the right option for your organisation to pursue
- Don't let people's uncertainty and/or unfamiliarity with loans stop you if the business case is sound and you have a good payback plan with acceptable risk.
- Look at a range of lenders to assess your options and choose the one which has the best terms for you.
- Do a regular risk assessment and manage payback proactively
- If you are finding income generated is taking longer than expected, talk to your lender early and think about re-setting the terms, and the length of the payback
- Take on specialist advice where you need it
- Make sure that the Trustees/ Board are behind the loan, understand it and are aware of any implications of it
- Make sure that you have the organisation behind you and they are aware of it, and any implications of it

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- Make sure that as you track the success of the project and the level of payback you are achieving, you communicate your performance to the team and include them in planning any remedial action necessary
- Do make sure that you are aware of everything the lender will require upfront in order to approve a loan, and any information they may need during the course of your project – e.g. interim building certificates if it is a building project.

The next steps

For more information on loans try

www.triodos.com

www.charitybank.org

www.cdfa.org.uk

www.futurebuilders-england.org.uk

www.unity.uk.com

www.biginvest.co.uk

For a guide on Funding and Finance: Guide to loans and other forms of finance go to www.ncvo-vol.org.uk

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Send feedback to: jane.grindey@co-operativefutures.coop



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