

## Nonprofits in Need: Borrowing Can Be Tool for Financial Stability

By Cathy Sorenson, Loan Officer for The Loan Fund

A nonprofit isn't in business to enrich its shareholders, but it still needs revenues and incurs operating expenses while pursuing its community service mission. It, too, can experience cash flow problems or require considerable cash to fund a capital project or expanded services.

When that happens, the nonprofit faces many of the same choices a for-profit business does, though it draws from different funding sources.

While a for-profit business can offer investors a chance to share in the company's fortunes by buying stocks, for example, a nonprofit relies on a stakeholder who's motivated by public interest rather than self-interest. Such unconditional in-kind and cash donations are as sensitive to economic conditions as consumer spending is for profit-driven businesses.



The Loan Fund at St. Elizabeth Shelter

A cash-strapped nonprofit may decide to live within its means, devoting itself to increasing endowments, grants, special event income, donations or sales of a mission-related product or service. But this approach can cost the nonprofit in missed opportunities, and it can divert organizational energy into treading water rather than moving forward.

When the need is urgent, for example, the ability to obtain a grant in a timely manner can be challenging. Grant approval can take months, and the outcome is not assured. Even when a grant comes through for a nonprofit project, it can be abandoned in the next funding cycle — even

when it's successful — when the grant giver decides to fund a different initiative.

Many nonprofits look to loans and lines of credit as alternative sources of funding when grants or contributions are not available or are not sufficient. Some foundations provide loans — referred to as program related investments — and while these can be great sources for low-interest loans,

the application process is frequently similar to the application process for grants; it can take months for nonprofits to find out whether or not they receive the requested funds.

For smaller projects and short-term needs, a nonprofit might turn to its bank or similar traditional lenders, but it won't obtain a loan if it doesn't meet lender guidelines. That's why many banks refer nonprofit organizations to The Loan Fund.

The Loan Fund has been an important source of capital for nonprofit organizations in New Mexico for 25 years. Itself a nonprofit organization, it has enabled many of the state's nonprofits to buy buildings, provide new services, expand delivery of their services, and fund operations. Organizations such as Southwest Creations Collaborative, Working Classroom, St. Elizabeth Shelter, New Mexico Jazz Workshop, First Nations Community Healthsource, the YMCA of Central New Mexico in Santa Fe, Rio Grande Education Collaborative, The Outpost Performing Space, Heading Home, Hosanna and many more have taken advantage of its financial and capacity-building services. In fact, almost half of The Loan Fund's loans have been made to the nonprofit sector.

The organization channels public and private funds into business loans that support economic development and job growth in New Mexico — especially in communities that are underserved by investors and traditional lenders. For more information, call (505) 243-3196 or email [info@loanfund.org](mailto:info@loanfund.org).

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