

SAFE Credit Underwriting Guidelines for Non-Profit Lending	Organization Type: NON-PROFIT ORGANIZATIONS
Revision Date: 4/23/2008	Subject: Borrower Eligibility and Bridge Loan Guidelines

Introduction

The Credit Underwriting Guidelines (CUG) manual is designed for use with products delivered to faith-based and non-profit organizations. The guidelines herein govern the granting of credit in the following product areas: sanctuary finance, child care centers, long term care/assisted living facilities, charter schools, affordable housing development and commercial retail and office loans.

The products were developed and recommended based on a conservative approach to risk, balanced with market needs. In assessing the competition's approach to this business, it is important to note that the finite distinctions between products for the non-profit and faith-based segments and "standard" borrowers lie in underwriting the borrower. In short, understanding the borrower and underwriting the deal accordingly is the core approach to lending in the non-profit and faith-based segments.

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BORROWER ELIGIBILITY

In general, non-profit organizations are founded for public benefit and operate to accomplish a well-defined mission. This mission is accomplished through the efficient operation of various programs and services. Non-profits are managed by a board of directors. The non-profit should have at least 5 years of experience doing similar work or the principal officer should have at least 5 years of experience in the non-profit's mission area.

A prudent assessment of the non-profit borrower's strength should be based on the following characteristics:

Mission

- The mission should be formally stated in writing and the organization's activities should be consistent with its stated purpose.
- The organization should have a process in place to review its programs and the efficiency and cost-effectiveness of its processes and outcomes.
- The non-profit should have at least 5 years of experience doing similar work or the principal officer should have at least 5 years of experience in the non-profit's mission area.

Governance

- The board should operate and adhere to established guidelines. These guidelines should explicitly identify representatives authorized to conduct financial matters on behalf of the non-profit. It is also important to procure copies of filings with the Internal Revenue Service and state offices that outline the non-profit's business entity status.
- Board members should actively participate in the fundraising process as evidenced by board meeting minutes and financial records.

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- In general, at least 70% of the revenue raised by the organization should be spent on programs (to ensure that the organization is actually being governed by its tax-exempt status).
- Board policies should be clear with regard to conflict of interest to ensure that only authorized contractors or other professionals are used in potential funding scenarios.

BRIDGE LOAN PRODUCT DESCRIPTION*

Bridge loans will be secured by reimbursable contracts and “approved grants” (borrower has received written notification of grant approval).

Term: Terms for bridge transactions range from 90 -180 days.

Rates: Rates will reflect risk-adjusted pricing and the cost of funds.

Fees: An origination fee of 1%-2% will be charged to borrowers with a minimum fee of \$250 to cover the administrative costs of the transaction.

Collateral: For bridge loans, a pledge will be taken against the approved grant/investment proceeds as primary security whenever possible. If a pledge is not possible, the borrower must provide documentation of a specific action of the board (i.e. board resolution) indicating that the loan will be paid off from grant proceeds and agreeing to the terms of secondary repayment. Secondary collateral will include a pledge against other assets of the borrower. Pending the borrower’s track record, cash flow strength and management capacity, unsecured transactions may be underwritten.

Loan Range: \$5,000 - \$10,000

FINANCIAL ANALYSIS AND UNDERWRITING GUIDELINES

- A non-profit should operate in accordance with its annual budget.
- In evaluating financial requests, the lender should review at least 3 years of financial statements. The statements should indicate that the non-profit has a strong operational history. In addition, the financial reports should include a comparison of actual to budgeted revenue and expense. In general, a non-profit with annual total revenues in excess of \$350,000 should subject its financial reports to an annual audit by a Certified Public Accountant.
- The non-profit should have written financial policies governing the following matters, where appropriate: (a) investment of the assets of the organization; (b) internal

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control procedures; (c) purchasing practices; (d) reserve funds; (e) compensation, including salary and benefits; (f) expense account reporting; and (g) earned income.

- A non-profit may budget for a deficit from time to time but should not incur persistent or increasing operating deficits.
- The fundraising expenses should be reasonable in terms of charitable revenue spent for development. On average, over a five-year period, a non-profit should have charitable contributions from fundraising activities that are at least three times the amount spent on fundraising.
- It is important to ensure that the non-profit preserves accountability to donors by sending reports detailing financial and program results to donors and grantors.
- As a general guideline, fundraising personnel (including employees and independent consultants) should not be compensated based on a percentage of the amount raised or any other commission formula.
- Review of the financial information should emphasize fundraising or sources of funding. The concentration of funding should be thoroughly examined as any reduction in this funding source could be cause for alarm. Additionally, an analysis of restricted vs. unrestricted income should be examined. There should be sufficient unrestricted income to adequately cover debt service **(Target DSCR: 1.15 if loan must be termed out.)**.

Partnerships and Alliances

Ensure that funding relationships with other organizations are written and clearly indicate the conditions for funding. This is particularly important in situations in which there are multi-year funding commitments that will be used for debt service.

ADDITIONAL CONSIDERATIONS

When financing real estate for investment, the analysis should weigh heavily on the strength of the project's cash flow. When financing "headquarters" for a non-profit, the strength of the borrower's cash flow should be more heavily weighed. **The project should also have demonstrated positive community impact in low-wealth communities.**

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Loan officers should use the attached Non-Profit Organization Checklist to Assess Financial Activities in conducting preliminary credit assessments of the borrower's capacity.

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Checklist to Assess Financial Activities in Nonprofit Organizations*

Indicator	Comments
1. The organization follows accounting practices which conform to accepted standards.	
2. The organization has systems in place to provide the appropriate information needed by staff and board to make sound financial decisions and to fulfill Internal Revenue Service requirements.	
3. The organization prepares timely financial statements including the Balance Sheet (or statement of financial position) and Statement of Revenue and Expenses (or statements of financial activities) which are clearly stated and useful for the board or staff.	
4. The organization prepares financial statements on a budget versus actual and/or comparative basis to achieve a better understanding of their finances.	
5. The organization develops an annual comprehensive operating budget which includes costs for all programs, management and fundraising and all sources of funding. This budget is reviewed and approved by the Board of Directors.	
6. The organization monitors unit costs of programs and services through the documents of staff time and direct expenses and use of a process for allocation of management and general and fundraising expenses.	

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Indicator	Comments
7. The organization prepares cash flow projections.	
8. The organization periodically forecasts year-end revenues and expenses to assist in making sound management decisions during the year.	
9. The organization reconciles all cash accounts monthly.	
10. The organization has a review process to monitor that they are receiving appropriate and accurate financial information whether from a contracted service or internal processing.	
11. If the organization has billable contracts or other service income, procedures are established for the periodic billing, follow-up and collection of all accounts, and has the documentation that substantiates all billings.	
12. Government contracts, purchase of service agreements and grant agreements are in writing and are reviewed by a staff member of the organization to monitor compliance with all stated conditions.	
13. Payroll is prepared following appropriate State and Federal regulations and organizational policy.	
14. Persons employed on a contract basis meet all Federal requirements for this form of employment. Disbursement records are kept so 1099's can be issued at year-end.	
15. Organizations that purchase and sell merchandise take periodic inventories to monitor the inventory against theft, to reconcile general ledger inventory information and to maintain an adequate inventory level.	
16. The organization has a written fiscal policy and procedures manual and follows it.	
17. The organization has documented a set of internal controls, including the handling of cash	

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Indicator	Comments
and deposits, approval over spending and disbursements.	
18. The organization has a policy identifying authorized check signers and the number of signatures required on checks in excess of specified dollar amounts.	
19. All expenses of the organization are approved before designated person before payment is made.	
20. The organization has a written policy related to investments.	
21. Capital needs are reviewed at least annually and priorities established.	
22. The organization has established a plan identifying actions to take in the event of a reduction or loss of funding.	
23. The organization has established, or is actively trying to develop, a reserve of funds to cover at least three months of operating expenses.	
24. The organization has suitable insurance coverage which is periodically reviewed to ensure the appropriate levels and types of coverages are in place.	
25. Employees, board members and volunteers who handle cash and investments are bonded to help assure the safeguarding of assets.	
26. The organization files IRS form 990's in a timely basis within prescribed timelines.	
27. The organization reviews income annually to determine and report unrelated business income to the IRS.	
28. The organization has an annual, independent audit of their financial statements, prepared by a certified public accountant.	

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Indicator	Comments
29. In addition to the audit, the CPA prepares a management letter containing recommendations for improvements in the financial operations of the organization.	
30. The Board of Directors, or an appropriate committee, is responsible for soliciting bids, interviewing auditors and hiring an auditor for the organization.	
31. The Board of Directors, or an appropriate committee, reviews and approves the audit report and management letter and with staff input and support, institutes any necessary changes.	
32. The audit, or an organization prepared annual report which includes financial statements, is made available to service recipients, volunteers, contributors, funders and other interested parties.	
33. Training is made available for board and appropriate staff on relevant accounting topics and all appropriate persons are encouraged to participate in various training opportunities.	

*Model based on United Way of Minneapolis research