

# CREATIVE BORROWING

**Ways to increase your organization's  
stability and restart your programs**



# Advantages of fully secured borrowing

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- Control is in your hands, not with the lenders
- Fast, since there are no bureaucratic authorizations
- Allows supporters to help while supplementing donations
- A long-term solution. Credit can be used over and over
- Universally available from local banks

# Things to Consider

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- **Who and what are credit-holders?**  
Supporters of your nonprofit who are willing to “park” funds with your bank.
- **What happens with these “parked” funds?**  
Funds are aggregated & used to buy a single certificate of deposit.
- **Who gets the interest?**  
Interest goes to the credit-holder.

# Things to Consider

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- **Does a credit-holder get a tax deduction?**  
No. Assets are owned by the credit-holder, unlike a donation, hence no tax credit.

Funds are pledged as collateral. So you, the nonprofit, can get a line of credit, or a term loan.

- **Does the credit-holder get their money back?**  
Yes, when the CD matures.

# Things to Consider

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- **What happens if your nonprofit defaults?**  
If you were to default on all your obligations, there is some risk of losing their collateral.  
SO.....

Don't ask your credit-holders to put up any more assets than they could afford to lose.

# In Summary:

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- Assets are owned by credit-holders, unlike a donation, hence no tax credit
- Funds are pledged as collateral
- Collateral enables your nonprofit to get a line of credit, or a term loan. And...
- Credit-holders gets their funds back when the CD matures

# Visual of an annualized summary budget

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## Income

Grants \$120,000

Donations \$50,000

Gifts \$35,000

Earned Revenue \$225,000

**Total Income \$ 430,000**

# Visual of an annualized summary budget

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## **Expenses**

Salaries	\$244,992
Fringe Benefits	\$ 53,892
Part-Time Wages	\$15,000
Consulting Fees	\$ 7,500
Rent	\$ 22,000
Utilities	\$5,000
Legal and Accounting	\$13,500
Supplies	\$12,616
Printing	\$55,000

**Total Expenses** **\$430,000**

Balance 0



# Visual of a three-line cash flow budget

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	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
INCOME	30	32	38	45	50	40	50	25	20	35	40	45	430
EXPENSE	41	40	35	32	30	35	40	45	42	35	30	25	430
RUNNING TOTAL	-11	-19	-16	-3	17	22	12	-8	-30	-30	-20	0	0

# Who gains from fully secured borrowing

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- Credit-holders gain an opportunity to help you at no cost to themselves.
- The bank gains the collateral that it needs to justify lending.
- You have a resource that can be used to mobilize credit when you need it.

# Key points in setting up a credit-holder group

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1. You and your board need to understand your **CASH FLOW**.
2. Board questions are answered in *The Cash Flow Solution: A Nonprofit Board Members Guide to Financial Success*, Jossey-Bass, 2006.
3. Set up the arrangements with the bank **before** approaching credit-holders.
4. Use a formal agreement between the credit-holder and your organization.
5. Individual credit-holders who wish to pledge stocks will require a separate and different agreement. Check out our book *Cash Flow Strategies: Innovation in Nonprofit Financial Management*, Jossey-Bass, 2009



NW Folklife Festival, Seattle WA





# QUESTIONS?



WASHINGTON STATE  
ARTS COMMISSION



OREGON ARTS  
COMMISSION

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