

Fund Raising

Lending to Charities: It's Good Business!

By Elizabeth E. Solender

Dramatically increasing rental rates, stricter zoning laws, and more generous donors are driving a significant number of charitable organizations to purchase real estate. As a result, many charities are turning to banks and other lending organizations to help finance real estate transactions. Following is a look at some key criteria lenders may use to assess the charity's strength.

Longevity

Most foundations will not give to a charity unless it is at least five years old. This should be an absolute minimum for a lender.

Services or Programs

Does the charity have a narrow focus, or does it offer a broad range of services that enable it to adapt to change?

Financial Support

There is no standard regarding comfortable percentages of funding from various sources. However, agencies that are dependent on one source for the majority of their funds are more likely to experience cash flow crunches.

Board and Charity Management

Review the list of board members. A strong board will have directors who hold leadership positions in business and have previous charitable board experience. Also, the lender should review the resumes of the executive director and development manager for previous fund raising experience.

Financial Reporting

The charity should have recent audits and a financial management system, which includes a board finance committee that reviews expenditures/income on a monthly basis.

Previous Experience with Capital Campaigns

If a charity has a previous successful capital campaign in its history, prospects for another success are very high. However, lack of experience with capital campaigns should not disqualify a charity from a loan.

Collateral

The loan usually will be secured by a lien on the property with full recourse to the charity. Most charities do not want to be landlords, so presumably there will not be any revenue generated by the property. The lender should obtain an appraisal of the property and closely review the renovation or new construction plans.

Lending to charities can be fairly low-risk, adds another avenue to build a loan portfolio, and exposes the funding partner to the community of donors and business leaders, who have made a commitment to their neighborhoods and are always looking for good business relationships.

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