ONTARIO NONPROFIT NETWORK

**Transcript**
**Beyond Grants: Alternative Financing in the Nonprofit Sector**
**Presented by Ontario Nonprofit Network**
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Melanie Rodriguez, ONN
>> Thank you so much everyone who has joined us early. We will be starting the webinar at 12:00 but please feel free to fill out our quick poll from where you are joining us from in the meantime.

>> Good morning everyone thank you so much for joining our webinar. We will be starting in three minutes. In the meantime please feel free to fill out our poll or if you have any questions you can send them to us in the chat box.

>> Hi everyone thank you so much for joining our beyond grants webinar. My name is Melanie and I'm the Communications and Network Engagement Manager here at the Ontario Nonprofit Network. If you're new to ONN welcome. We are a network of 58,000 non-profits and work in public policy advocacy and helping provide services to strengthen our sector. If you're already a member, we hope that you enjoy this webinar and you are able to use some of our other great member services such as $100 discount to nonprofit driven. If you experience any technical difficulties during this webinar please try to reopen your browser and if that does not work you can call 416-612-5786. We're still waiting on a few participants to join the webinar so while we wait if those participants could do a quick poll to see what you are most interested in gaining. So of the options in the poll we have some of the things are most important to gain from this webinar. First what is debt financing a line and a line of credit. What do conventional lenders look for in a borrower. How do you know if you're ready for debt financing? What are some ways to identify your borrowing profile and how and when to get ready it apply for a line of credit. We'll give another 30 second to fill out the poll and then we'll begin.

Wonderful. It's great to see such a variety of what people are interested in. The top one that people are interested in was ways to identify your borrowing profile. So we're going to try to cover all of these topics today and you may be wondering why is ONN offering this webinar. Maybe you are looking to diversify its financing options or the new funding realities may make it challenging. This webinar will help address these challenges. One of the priorities is to strengthen through the nonprofit sector. In our advocacy work we emphasize the role of the nonprofit sector as an employer and economic actor. When non-profits work together to keep investments circulating locally it strengthens the work to support thriving communities. We are advocating for a stable funding environment and an ecosystem of funding and finance so

non-profits have access to appropriate funding. You can find more information about this on our website and we'll be sharing some more information later on in the webinar. Our goal for today's webinar is to provide all this information to you in 60 minutes. Before I go further, I would like to do a land acknowledgment. ONN recognizes that we are on the traditional territory of the Mississaugas of the New Credit. This land has been spirited by many Indigenous peoples for time immemorial including the Wendat, Haudenosaunee and Toronto is also part of the Metis Toronto is home to many Indigenous peoples from across Turtle Island.

And now our agenda for today. First we're going to talk about what is debt financing, how non-profits and charities can leverage these tools. What is a loan or a line of credit? How do conventional lenders look for in a borrower. Are you ready what are ways to identify your borrowing profile. You can ask questions. Our speakers today are extremely qualified in this field and I'm so happy to introduce them. First out we have Beth Coates a financial manager, CFPA and CA. Beth has 25 years of experience as the financial manager of the Canadian Alternative investment foundation and cooperative. They have been providing investment funds and financing to the cooperative nonprofit sectors across Canada for over 30 years. Beth is a charter professional accountant who has extensive experience in both the nonprofit and corporate sector as a financial analyst, corporate risk manager and controller. She is contributed to social finance.CA and written papers for the CED network. Secondly, Rebecca Waterhouse whose impact investment associate and MPNL. She has six years experience on social entrepreneurship and community development strategies. Her experience includes being a front line worker and consultant for non-profits. Rebecca holds a masters in philanthropy from Carlton University in Ottawa Ontario. She is currently pursuing her sustainable investment professional certification. During the webinar please feel free to share questions for both Rebecca and Beth in the chat box. We'll try to answer as many questions as we can at the end of the webinar. If you have any comments you would like to share with the group you can write in the chat box or even better join the conversation online through social media by taking the Ontario nonprofit network. Now I'd like to pass it off to Rebecca.

>> Rebecca Waterhouse, CAIF: Thanks so much Melanie. A little bit about CAIF, who we are. So CAIF is a registered charity we're established with the sole mission to offer low cost flexible financing to other charities to help them operate more effectively and meet their missions better. We were established in 2012 with 4 million in assets and effectively we're building off 35 years of experience of the Canadian alternative investment cooperative who is a social lending pioneer in our sector. And we believe no one else has more direct investment experience in the sector than CAIF does.

>> Beth Coates, CAIF: Hello I'm the financial manager at Melanie said and I'll get right into some of the technical parts of what we want to talk about today. So what is debt financing? It pretty much has three most commonly used sort of three components and that is mortgages, term loans, and lines of credit. So we'll go through each one. So what is a mortgage? Well mortgage by and large is a loan that is used to buy are real estate and then is secured by that real estate. So if you're looking to do a mortgage, your lender usually is going to look at some parameters

and this is the whole getting ready to borrow piece about whether or not this is an investment that works for them. And the first one is about appraised value. So most conventional lenders will lend up to 60% of the appraised value. So in other words if you go and get an appraisal and it says that it's a million dollar building they are probably interested in maybe about $600,000 loan that's probably the most that you will be able to borrow but that's not the only thing they are looking at. They also want to get comfort that once a mortgage is set up that you will be able to make those monthly payments. That's when another really important metric comes into place, and that is the debt service ratio. Don't worry this isn't going to be a lot of numbers today but I think sort of one technical piece that is really important when you're talking about mortgages. And that is this debt service ratio which is basically gives the lender comfort that you're going to be able to make the monthly mortgage payments.

So how do they calculate this? Well, they take a look at your revenues and they take a look at your other operating expenses and then they see well what's left to in fact cover the mortgage and that a little bit of a fancy name is the excess of revenue over expenses before interest and before amortization. So whatever that figure is, is divided by the number of mortgage payments that you have to make during the year and that gives you this ratio. Most institutions would look for a minimum of 1.1. So in other words, if we look at my slide, if you had $100,000 worth of mortgage payments to make a year, they would want to see that your excess of ROEBIA was at least 110,000. In my example it's $125,000 which gives you a 1.25 ratio. So what does that mean if you're this organization? Let's say you have a million dollars of revenue a year and all your other expenses are $875, that means you would have this $125M that would be available to service your mortgage, hence giving you the 1.25. So really these two are kind of the fundamentals of what a lender is looking for when they are going to do real estate lending, what's the value of the property, what is your capacity to service the debt that you are taking on. So we'll go back and take a look at some of the other points about mortgages.

Now you may have heard a second and third mortgages. What I was talking about in the second point was a first mortgage. And that means that's the only debt that's secured by a piece of property. But sometimes especially non-profits don't have all the rest of the money, they don't have the 40%, they don't have the $400,000 that I talked about in my example. So for them they may go and get a second or a third mortgage to kind of fill the gap. You may have saved 200,000, the bank is willing to give you 600,000, you're going to have to find some way of putting those together. That's where a second mortgage comes in. Usually a little more expensive because as you can see they are a little more riskier than the first mortgage but they can really make, they can really make a difference. Our predecessor cake did a lot of second mortgages and what we would do is often did them at interest rates that were very close to the first mortgage, that was a real benefit of us being a charity and us doing this. And it allowed for the whole kind of financial picture of buying a property to come together.

The other things you're going to want to have to think about are the term. Usually mortgages are a five year term. That's standard which means that you then while you're locked into your interest rate and you're locked into this agreement for usually about five years time. The term is

not the amortization. The amortization is how quickly you're paying off your mortgage. So you think of just when folks by a house and sometimes they will have a 25 or 30 and even going higher these days, amortization. So that's the length of time that you will be making payments to get the mortgage paid off. And the last thing I want to briefly talk about with mortgages is community bonds. A lot of talk about community bonds these days and really what a community bond is, it's a mortgage that's held by all the bond holders. So often it's sort of an organization, especially if they can get first morality financing but they can't get that second, they will go out to the community, they will get a second mortgage and then basically sell that second mortgage in pieces to their supporters in the community as a community bond.

The next thing that I wanted to talk about was term loans. And that, and a term loan is basically kind of standard loan that you would get standard operating loan that you would get from the bank. They are usually smaller value. I mean before I was talking about buying real estate which is usually big lending. And they are usually sort of for a smaller amount. They can be secured or unsecured. Normally if you're dealing with a financial institution they will want some kind of security. So you're going to have to pledge whatever assets that you have for the loan or be part of a guarantee program, something like that.

Usually the term and the amortization are the same so you would get a five year loan which will be paid off in five years as well, unlike a mortgage which would carry on over several terms. The rate that's set and we're always asked what rate do you charge, is usually a function of risk. I'm going to talk about risk a little bit more in a further slide. But if sort of the best security and the best loans, those get usually the best rate. You hear sometimes about at bank prime rate. Some prime or prime plus 1 or 2. Basically the bank has to make an assessment how risky you are and that's going to drive ultimately the interest rate that they charge you. If you're a nonprofit or charity looking for a loan it will usually be for a specific purpose recollect maybe you've moved to a bigger office space and you need to do leasehold improvements. Maybe they're certain kind of machinery you have to buy, maybe you have to buy more equipment. Those are the kinds of things that normally would be financed with a loan. If you get a loan, usually your lender will want to see you over the length, over the life of the loan, the five years, three years. Make sort of certain standards, there will be conditions, they will want to make sure that you are operating positively and whatever other metrics they are comfortable with that you're still a good bet. And then sometimes you will have heard something called a demand loan. What that is is you've got everything set up, you've been length the money if the bank becomes uncomfortable with the situation they can call the loan at any time. The third thing that we wanted to talk about today was lines of credit. So kind of the dictionary definition of it is a preset amount of money that a bank or credit union has agreed to lend you.

Now they are used all the time in the for profit world because there are cash crunches. No one has an operating cycle that looks the same every day. There's times cash is flowing out because they are buying and flowing in because they are buying things. To smooth this out this is why lines of credit are used. In their own way, not for profits and charities have exactly the same situation. There's times during the year you're spending lots of money and times during the year

money is coming in. Once that preset amount has been established, then you can draw on the line of credit to meet your needs up to the maximum. You can also repay it at any time.

So of course the benefit of this is that you're only paying interest on what in fact is outstanding at any given time. Most lines of credit though will have some kind of minimum payment. Usually at least be the interest on the outstanding amount. And depending on how the line is set up they may ask you to pay 10 or 15, 20% maybe of the outstanding line at any credit time just to give them comfortable as the lender that you're properly managing their line of credit. So I said I would talk about risk and how lenders look at you. And there's something called the five C's of credit and this slide gives you some detail about what they are. Now the first and the foremost is the collateral which is basically the assets that you can pledge against the debt. And the mortgage that's a pretty straightforward situation, it's the real estate. But also organizations pledge other assets that would have value to a lender. That's your collateral. Your capital again to go back to the mortgage example is sort of how much money you have. So in my real estate purchasing example, where the organization only had 20% of the purchase price, that's kind of your capital. So obviously the more you can bring to a situation, the better it is and the more comfortable that the lender is going to be.

The next one is capacity. And that's when they start looking at your historical financial statements, your projections going forward to see okay, based on how they've performed and where they think they are going and what they think their access to funds is, are they going to be able to service the debt back to the debt service ratio, it would be based on your capacity.

The next one is conditions, and conditions is very broad, it includes things like our general economic conditions, are we going into a recession, are you located in a place that, you know, that there's low unemployment, that kind of thing. It's also the conditions that are specific to your organization. You know, for instance is there a change in government that is either more or less predisposed to support the kind of work that you're doing. And lastly, is character. In a lot of ways it's the most important one. It's you, it's your experience, your demonstration that you have the capacity, that you are capable of running your organization and give the lender comfort that you are someone who is going to pay them back basically at the end of the day. On our website we go into these in much more detail and so there's a bit of a checklist if you will and you can take a look at yourself vis-a-vis the various metrics.

So then there's really, now we're getting down to the hard core or the inner core, if you will, about what a lender is going to think about when they, when you approach them about borrowing money. First one is do you understand your business model. Do you see, I know you're a nonprofit and I know you're a charity but there's kind of a business piece as long as money is coming in and going out there's kind of a business piece to it. Do you know how much it costs you to deliver what it is you're doing. What did your overheads look like. If you're getting X amount of revenue, what percentage of that revenue is required for staff salaries, supplies, et cetera,. So do you understand your business model. The next question is why do you want to borrow. Do you want to strengthen your organization, do you want to get up to the next level, is

there some specific project that you want to do that makes sense for your overall organization. So really why, other than we're running out of money, has to be addressed. And that leads to the next question, will it strengthen the organization, are you borrowing to grow so that overall you hope to be in a better, more secure place than you were maybe today or than you were five years ago.

And then how are you specifically going to employ this loan to do that. Maybe you're going to buy something. Maybe you're going to buy real estate. Maybe you're going to move up into bigger space than you have now. Maybe you're going to upgrade a bunch of your equipment so that you can more effectively deliver your program.

And lastly, and I guess maybe this is the most important in the questions that were sent to us before the meeting we definitely saw this, you need support from all of your stakeholders. As a nonprofit or a charity, you are in a very interesting stakeholder position. You've got those you serve, you've got your staff, you've got your board, you've got the general public. So your stakeholder situation is probably the trickiest of all but taking on debt really has to be discussed, batted about and really you have to have full buy on for it to be successful.

Back to Rebecca.
>> Rebecca: We recognize that you all are here because you want to do things differently, and so does CAIF and that is why CAIF designed community life lines of credit which is a line of credit program designed specifically for the needs of small Canadian charities. So how we know that this need exists. So from our experience in the sector we recognize a persisting problem of tight cash flows and compounding this issue of tight cash flows is the fact many non-profits and charities do not have the assets to pledge as security. And what that means is that there's a lack of access to conventional loans at affordable and/or accessible rates. So this is a self perpetuating cycle as a short term issue that kind of consumes a non-profits or charities operating cycle and is distracting to your core mission.
But during these times of stress it's even more heightened and pertinent to start addressing these issues to start really thinking about your viability and sustainability for the future. So we know at CAIF that non-profits are and charities are resilient well managed and good investments, and Beth spoke to the specific characterize that make them good investments.

>> Beth: Back about two or three slides ago I talked about the five C's of credit. For conventional lenders they would pretty much like to see you score on all five but we know from our experience there's very limited collateral and very limited capital in a sector. That's why the founders of CAIF the cooperative that proceeded CAIF got together and organized the cooperative 35 years ago. So what do we do then to continue to lend usually in the absence of strong collateral and in the absence of lots of collateral. What we do then is we really focus on the other three. This is why I said in a lot of ways character is one of the most important things. Getting to know you, working with you, getting comfort about you, that's how we have been successful in the last 35 years and have had a very, very low default rate is that we've really worked with borrowers to get to know what you're going. We get to understand your capacity

and understanding the environment that you're in. Of course after 35 years as well, we know this sector, we know the conditions, what it is that you are dealing with, confronted with, and how you're coping with that. A couple more C's I guess. Back to you Rebecca.

>> Rebecca: Yeah so a little bit about the opportunities. We want you and your organization to get the credit that you deserve so we're offering up to $50,000 lines of credit and we're not doing the banking ourselves we're going to be partnering Vancity community investment bank and you can stay with your bank and you can receive and pull from the line and pay back the line through your current banking institution. What happens is CAIF guarantees the line so what this means for Vancity is that they can offer you their best customer rate at the 1.15% and so all in all CAIF is offering you money yes but we're also offering you a commitment to financial mentorship from application phase to access of the line and financial management of the line. We're going to be supportive and understanding of the situation that you're coming from in your operational context and work with you to tailor that line to your needs. And it's going to be linked to your financial literacy and capacity to do more with debt and allow your mission to succeed. So it's a very comprehensive package and we believe it's successful based on our 35 years of experience in the field. So a little bit about the benefits of a line of credit -- sorry we're going to go to how you would use it. So common scenarios in non-profits and charities where a cash flow is tight are seen here below. Listen to these and see if they resonate with you and your organization. So payroll is withdrawn on the last Thursday of the month, however your municipal transfer does not come in into the first of the following month. 2, you have received funding for a project. Funding is 50% up front and 50% on the back end. You have completed and received approval for final payment and are now running low on cash but you know that 50% is coming in so you have that expectation. Scenario number 3, you have been given notice that you are he will just I believe for a new stream of financing however you will need to hire new staff, cover all those up front costs demonstrate that the program is up and running and then the funding will begin. And scenario 4, a disproportionate amount of your funding arrives in October due to your annual gala. You are see shrinking cash in your bank. In all of these scenario line of credit would strengthen your organization and not hinder it and this is because you have a determined need, a cash flow need. It's not related to a replacing a major if you know did he remember and also you have a plan. So you have a specific purpose and plan in place and also a repayment plant. You have expected revenues to come in and you can afford to pay this back. . Finally you have support ( in capacity to manage it because you have this forecasted the ability to know your expected revenues and you see and you can plan for these shortages.
So we can now speak to a little bit about the benefits of line of credit.

>> Beth: Just a point of verification about one and a quarter. That was 1 and a quarter% over what at any given time is the best customer rate at Vancity. So I don't know I think that's about 31/2% plus 1 and a quarter%. So just for a point of clarity and it will obviously move as interest rates go up and down although as we all know they've basically been down for the last few years. But you can see what a benefit that is for basically an unsecured line from financial institution would never be available at that percentage. And us as a charitable foundation, that's what we're doing to provide other charities with low cost debt.

I just wanted to make one other clarification just in our relationship again with Vancity community investment bank. They are actually the banker, be moving money in and out of your account on your say so. And they will do all of that because we have agreed to guarantee the loan. So should there be difficulty with the loan, it is on us. I'm going to talk about this a little more later. So that's why we have to get so comfortable with you, because we basically we are investing in you, we are using Vancity to actually sort of do the mechanics of it.

So as I mentioned, there we go, as I mentioned, the interest rate is low because we are providing a guarantee to Vancity, they are looking to us as the guarantor on the product. And the advantage to you of course is it means that you would have access to money whenever you have a short term cash flow. Sometimes even knowing that the money there is worth quite a lot to organizations even if they sell them to use it it's something they don't have to worry about. They don't have to worry about a three or four day gap between when the payroll is made and the next tranche or funding comes in from the city or Province or wherever they get their funding. You can access obviously as much of it only when you need it. And return it when you don't need it. And you're only paying interest on the amount that's outstanding at any given time. So let's talk about the process. So this is, this slide talks about how we actually do it and how you would approach if you were considering and by the way line of credit alone or mortgage. We still do the others as well. So basically we have an online application for all three types of lending. We ask that you call us to start. We like to talk to you to start. If we don't think there's any kind of fit we're not going to waste your time, I think you would probably appreciate that's a good idea. And there's a code to get in and then you can start filling in the application.

Once the application is completed it would be reviewed by the staff, that would be Rebecca and me, if we think this is a good fit we would bring it to our credit committee which is made up of experts and business people within the community. It's basically their job then to recommend or not, the application to our board who approves it and basically gives Vancity at that point the okay the get go to actually set you up and make it possible for you to be transferring money in and out and then the 5th piece of course is that you would use it as required, you would pay the interest on the outstanding loan and repay it as per the loan agreement. So what we would do is based on your circumstances, we would tailor make a loan agreement with you how much we think you should be paying back in any given time. The last thing we want to have happen is to have you run up to the maximum and then be in some difficulty. So we would be there monitoring and hopefully working with you and hopefully what that does is make you the most successful possible as using this. We don't want to just sort of drop it in your lap and run away.

And that's really what the bar on the bottom of the slide is about. We understand after 35 years of doing this, it's not easy. It's not what you do every day. And you need support and that's what we're here for. We're here, as I said we like to talk to you before we even start. We want to help you through the application process, we want to help you get ready when the credit committee decides to do this and we want to help you even when the loan is out both with financial literacy and just helping you manage and using this as a tool to strengthen your organization.

>> Rebecca: That's great and I think just to clarify a little bit we can move onto our resources that are available. While CAIF extends to registered Canadian charities that does not mean any of these principles are not related to non-profits in general. Investment readiness how we describe it today and getting there and those three characters social lenders look for are pertinent to non-profits so keeping those in mind. We have, there are a bunch of social lenders in the neighbourhood to Vancity community investment bank is doing business banking but they are not doing individual banking at the moment. Personal banking we also have Alterna savings a social pioneer as well. And we have had previous agencies who we have worked with in discussing investment readiness and the application of a line of credit to their operational context and they have been successful in working with Alterna savings. The community forward fund very established and they do a diversity of investments ranging from loans to mortgages as well. The Canadian cooperative investment fund focaled on cooperatives. At that point industry community capital. We talked about community bonds they are doing interesting work with community bonds right now and we have DUCA impact lab so there's a new opportunity for working capital opportunities, lines of credit for social entrepreneurs and they are do info sessions on that. The Toronto enterprise fund has mixed capital and catalytic grants opportunities for many social enterprises and non-profits. Fair finance fund is offering a new financing opportunity for local food movements and co-ops and VER GE who is doing this and mortgages as well. So we are very hopeful that in receiving all this information and digesting it and looking at your case and if you do determine that CAIF line of credit is well suited or you believe that you're interested in taking next steps we would love for you to speak to you and reach out to us. We're having accessible by email, by phone, we would love to have a phone call with you and discuss your needs and discuss if a CAIF line of credit is right for you.

>> Wonderful. Thank you so much. Thank you Rebecca and thank you Beth for going through all this information and really highlighting that CAIF is a lot more than a financial services provider. You really do provide support and lendership as well throughout the process. We do have a few questions. If anyone else has any additional questions, please feel free to write them in the chat box. Before this webinar we had brought up one main question and this question was what are the largest barriers to being able to access debt financing and we found there were a few trends so I'm going to list them out right now. So one of the trends that people commonly found as a barrier was funding can be cancelled or changed year to year so they are nervous about being able to make those payments. Second was public perception they would be by using public debt as nonprofit. Third was fear of not being able to pay it back and the fourth trend in the comments was the security required for a loan and a lot of questions throughout this webinar also have related to this and about are boards of directors liable and I would love to pass that over and see if you have any insights on these barriers.

>> Beth: I'll kick-off. Yeah, we got these questions beforehand and I want to thank everybody who did send questions beforehand. They were very thoughtful. As Melanie said they fell into some general categories and these are helpful for us as well. It is wonderful to know you sit there and think about what you think you are hearing but it was really great to sort of see it in

writing. So the first one as Melanie said was around precariousness. We live year to year. I've often said I never wanted to be an ED of a nonprofit. You wake up every January 1st and you have to do it again cha cha cha all those grants again, et cetera, et cetera. That is the world that we are used to. So we hear you completely and but we by sort of sitting down and getting to know your exact circumstances, what other sources of revenue you might have, support that you have in the community, we try to put together for ourselves a sense of the risk mitigations that occur because on the one hand you do say gosh every year this is only a one year grant or this is a two year funding program. On the other hand chances are you've already been around for 10 or 15 years. Somehow you got there. So that's what we want to tap into as the potential lender. The second set of questions really were about stakeholder relations. In the sense that if you were using debt, some of the granters might not be keen about that, the public perception might not be all that good. And you know what, in a lot of circumstances those are probably valid concerns but there clearly are circumstances where debt makes a lot of sense. Let's say you've been renting somewhere and we had a loan many, many years ago and it was a shelter helping women. They fixed the place they were renting, they fixed the place up, and the landlord comes in and goes gee that's great thanks a lot out you go. They realized this was not sustainable and they figured we really do need to buy our own place. Well, there is an argument, the stakeholders were really keen about that and in fact once they got their mortgages, the stakeholders really went to bat having fundraisers and whatever to start drawing that mortgage down. So if there's a compelling argument where debt makes sense to get you to where you're going, I think -- and you do have to make that argument to stakeholders, but I think if you can, then that's kind of a win/win for everyone.

There was another question about sort of risk and liability as it came to boards of directors, et cetera. And those are all excellent questions as well. And I'm not a lawyer at all, but I can tell you this, that it is the organization that is doing the borrowing. Yes there are lots of demands on directors, they are expected to do all of their due diligence, they are expected to know their bylaws, et cetera. If you have legal counsel then discuss them and if they feel that the order of bylaws is within it's powering and doing this it makes sense. I also want to bring up the thought I have when I was reading that question, unfortunately in many cases. Board members themselves in addition to the organization borrowing money, the board members are asked to personally sign as sort of guarantors for their debt. CAIF and cake don't do that. We either feel the organization and this loan can stand on it's own merit. We would never look for personal guarantees. But the questions that came in, that's a fair thing. Often when you go to the bank they will say that's fine we'll make the loan as long as the directors themselves guarantee the loan. And the last there was one other question about financial literacy and we were really glad to see that. That was kind of we don't do this because it's not our, it's not our, where we are comfortable and that's again where CAIF really hopes to help. To up your financial literacy, to walk through this process. That's what we were set up to do, that's why we are a charity, that's what revenue Canada saw as our charitable purpose.

>> Amazing thank you so much for the very insightful response. We have so many questions so we're going to try to get to as many as possible. If we don't get to your questions. Don't worry

we are writing them down and we will make sure to send an email following up with the questions that were answered.

So one of the questions we had was about how do you determine the amount of line of credit for your organization. Do you base it on the previous grants what's the right amount for them they are trying to understand.

>> Beth: I think how much we would approve could well be determined by some of those variables. But I think more importantly is what do you need. If you are looking at your cash flows let's say over the last year, where were the gaps and how big was the gap. One metric that folks use is payroll. That's really all they need is to borrow maybe $30,000 because that's payroll that's sort of the worst case scenario. I hope that answers the question.
>> I think that does. Wonderful. And so we've had a few people asking about the line of credit and is it solely for bridge financing or can it also be used for new projects and if so do you have any examples where it was used for a new campaign.

>> Beth: Bridge financing clearly is one of the needs of lines of credit. I think if it were a new campaign, chances are it would be more like a term loan. Really they probably would need the money, all of the money up front and then as their operation gets going hopefully their capacity goes up, capacity to basically pay that loan down. That's where really more of a term loan, if you're launching on something new really a term loan makes more sense.
>> Okay.

>> Rebecca: Speaking in terms of using a line of credit for a new campaign or project it would be quite expensive in pulling all of that money and paying all of the interest on that versus having a term loan which would be more accessible in that regard.
>> Great. And I guess just kind of building off this line of credit. Some are wondering are there limits you would have, is there a total amount CAIF is willing to give to a charity or is it charity specific.

>> Beth: Yes, the maximum I think is on one of the slides it's $50,000. However, you wouldn't be obliged to apply for the full 50, nor would we maybe give the whole 50 if a smaller amount made sense.

>> One of the questions we had was specifically about community bond transactions and they were wondering if you're able to walk us through a time where you had to do a community bond transaction and kind of going over who does what and maybe an overview of what the few years would look like.

>> Beth: Okay I'm going to be very brief on this because it's not something we do. I would really recommend that you get a hold of Tapestry and they are on our resources sheet. I have been involved with communed bonds for a long time and actually have some in our portfolio. So basically what has happened, basically the way a community bond usually happens is there is

an interest by the charity or nonprofit to purchase a property, they probably can get a first mortgage that 60% that I was talking about in one of my slides. They may have 20% themselves. They have got a 20% gap that's where the community bond goes in. Basically they raise the funds for the community bond and once they've got enough funds, then -- once they've gotten sort of enough funds then another mortgage goes on the property, usually a second mortgage, and something called a trustee who often holds the second mortgage they are also responsible to all the bond holders and so that's the basic setup. But as I say I would really go to tapestry. They are set up exclusively to do that. What the community bond does is allows you to use another mortgage on your property and sell it widely within the community to your supporters. They eastern some interest on the bond. You probably get a lower interest rate than you would if you had a conventional second mortgage so it's kind of a win/we know.

>> Thank you for answering that. Another question we have is what is the difference between ROEBIA versus EBITDA.

>> They are virtually the same thing, yeah. The point is it's the cash that you have available to service your debt and you take, you take your earnings before amortization and interest because actually interest is part of your debt service and you don't put amortization in there as well. I'm not saying it's not a real thing but it's kind of a paper cost, if you will. If you have a mortgage, it's because you bought a building maybe five years ago and it's amortized over the length of the building. That's kind of a an accounting cost it's not real cost, not real cash going out the door. The lender is very interested in real cash because it's real cash that's used to pay mortgages.

>> Great. And for those who maybe don't know what EBITDA is do you mind explaining that.

>> Beth: Well it's earnings before interest, let's see earnings before tax, which is not relevant, usually for many non-profits, earnings before taxes interest, and amortization. So as you can see it's virtually the same thing as my definition there.
>> Okay, great. If someone is having a mortgage, how much financial hurry do they normally need. For example could a new nonprofit that's only three years old apply for a mortgage.

>> Beth: That's a great question. And it's kind of a tough question. Because what's going on in the three years is really the answer and that's wishy-washy. I guess what I would say is as a lender, I'm looking for a balance between where you've been and where you're going. I work for another, a charity a nonprofit that does social housing in the city. And their goal from the get go was to buy a building and to do transitional housing and get folks off the treat. There was no history but they were able to borrow money based on some other strengths going forward. And it was central to their mandate to be able to borrow money so they could get this building and convert it to appropriate housing. So as I say it depends on what happened in your three combined years and as a lender you look at blend between what has happened and what you hope will happen. Because the converse of it is that you could have a terrific ten year history but looking forward things don't look great. So it's a blend of the two.

>> If you are applying for a mortgage or loan or line of credit is there normally additional fees for setup and administration and would this change based on the nonprofit.

>> Beth: Yep. One of the other benefits that CAIF confers in the, in doing our charitable work is that basically we have no fees. The organization borrowing from us has to pay legal fees which is basically a third party fee that we incur so they pay that piece. But we are ourselves do not take fees for the work that we do. That's sort of another benefit that we confer in this space. It is not the case with conventional lenders and organizations have to be very wary and understanding up front what all those fees are. And I will make the comment as well, a lot of organizations I sort of talked about the situation where they have some money and they get a first mortgage and they maybe get a second mortgage maybe from us, from somebody else, the more mortgages you have and the more players that you have, it can get really expensive really quickly. So we've seen this, I think everybody is interested in keeping the fees as low as possible but the reality is when the lawyers start talking these are legal transactions and this is transactions and they start talking to each other and it's hard to turn, it's hard to contain it.

>> Great. So we have a couple more questions and I see we're at 12:54. So we'll finish these questions but if anyone does have more questions, please feel free to email us and we will try to answer them.

So the one question we have is very situation specific. So our situation is likely unusual. They are a new not-for-profit and charitable application is to be submitted very soon. When the transfer is complete, we're going to have several amount of assets but a big challenge to develop operating revenue. What financial tool would you advise to use based on what you said it sounds like maybe a mortgage would be the best since we have a lot of assets.

>> Beth: That's right if they are real estate assets I would say yes. I'm glad this question came up because it's a good one and it's why I did get into the business about debt coverage ratio. Because it happens often that charities and non-profits are kind of asset rich but cash flow poor. So they have an asset, you know you get an appraiser in and it could be worth 2 or 3 million dollars especially a real estate asset. But if it's not generating a cash flow, it would be like owning an apartment building with no people in it. Yes it's worth based on other apartment buildings in the neighbourhood, it may be worth 4 or 5 million dollars. But a lender is not going to lend on it because there's nobody in it to pay you rent so you can pay your mortgage. So it is a real problem. And I have come across this over and over again. Sometimes groups will have a very valuable piece of land and they want to develop it for nonprofit or social housing. And so yes, they have this asset but they don't have any way to kind of convert it into housing because it in itself even though it's valuable is valuable when you sell it, that's the sad part. It's not valuable as an asset that generates cash flow.

>> Great.
>> I hope that answers the question.

>> That does answer it. Another question we had was for ONN that is will there be a webinar on social enterprise financing. We are going to have a webinar on social enterprises in September or October, definitely look for the emails and we will send you a reminder. For our last question, what does CAIF consider a small Canadian charity and how would they define small?

>> Rebecca: Your budget most I think is what we look at and that's usually correct me if I'm wrong Beth but 500,000 and lower tends to be on the small side of things. And that's where we're tailoring our line of credit pilot programs towards is those small organizations. Where the 25,000 or 50,000 is most useful in those situations.

>> Wonderful. Thank you so much for taking the time to answer so many questions. We're so happy to see such great engagement from everyone. And thank you for everyone who joined us on the webinar today. We hope today's webinar has given you some useful information as a finance tool to support your organizations cash flow cycles. We're going to be sending a follow-up email which will have the recording and a slide deck which has some of the resources we talked about today. We would love to stay connected with you whether it's connecting over social media, Jo I think for future webinars or events or becoming a member. Thank you so much and please keep in touch.