

Getting ready for loans



If you are struggling to find funding, it might be worth considering a loan (sometimes known as loan finance). Loans are a relatively new source of income for the voluntary and community sector but if you have strong planning, financial and cash management skills, you may find it a useful injection of cash with fewer restrictions on how you spend it.

Are you 'fit' for a loan?

It is vital that good financial management systems are in place to manage a loan in order to reduce any risk involved. You need to be clear about how you are going to repay it and include any income or assets that you could use as security. You will also need the support of trustees or senior managers to understand why it is being used and what the benefits are.

The table below outlines some advantages and disadvantages of loans:

Advantages	Disadvantages
<ul style="list-style-type: none">Loans can be quicker to arrange than grants (and less bureaucratic) so can make things happen relatively quicklyLoan agreements have fewer restrictions/conditions attached than some grants so often offer greater flexibility in how money is usedCash flow can be easier to predict and plan for with a loanLoans aren't paid in arrears like some grants areLoans help you think about your future and organisational development – how you manage yourselves	<ul style="list-style-type: none">The money needs to be paid back with interestThey often require securityIt might be hard to get a repayment period that works for youA loan is generally more riskierA loan requires good financial discipline and skills which not every organisation hasAssets can be lost if loans are not repaid

Key questions:

- Does your governing document (your constitution) allow you to take out a loan (and use your assets as security)? If not, you will need to change it.
- Have you got a clear business plan?
- Are you clear about how you will use the loan?
- Are your committee and staff happy with the idea of using loan finance?
- Have you got a robust financial strategy outlining how you will repay the loan?
- Are your trustees satisfied that repayments can be made?

Factsheet

Greater Manchester Centre for Voluntary Organisation

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Applying for a loan

Once you are clear about what you need a loan for, you need to think about where you can get one.

Lenders are organisations that will give you a loan (eg banks). How much information you will need to give to a lender will vary from lender to lender and also on how long you need the loan for. Typically a lender will want to know what it is you will achieve with the loan, how much you need, timescale and what the benefits will be (both for the organisation, and wider).

Here is a checklist of common items a lender may ask for:

- Governing document (memorandum and articles of association).
- Two or three years of audited and management accounts.
- Financial projections for the next few years.
- Business plan and financial strategy.
- Organisational information (eg structure, history, services).
- Details of what the money will be used for including the broader social impacts.

Please note – lenders may ask for other information – the above should be seen as a general guide.

Where to go for a loan

Borrowing from high street banks is a good starting point. However, they will look for a commercial return on any investment and will ask for security against any loan (which is sometimes why voluntary and community organisation struggle with securing a bank loan and are seen as 'unbankable').

Key Words

Arrears – after a piece of work that has been done, late or behind

Asset – useful or valuable item, eg a building

Capital – cash, goods or buildings

Loan – a sum of money which is lent on condition that it is repaid in the future, usually with interest

Memorandum – a written proposal

Financial strategy – a plan that sets out how an organisation will finance its activities and development. It shows how much money is needed and where it will come from (sources)

Case Study:

The 4 C Community Centre project offers a new zero-carbon Community Centre in Tameside. It successfully received funding from Communitybuilders for a package of support including a mix of loan, grant and specialist support.

Jonathan, chair of the project says 'Communitybuilders has meant we were able to reach our fundraising target quicker than we would have done otherwise. The process of applying was very thorough and whilst challenging it involved support from specialist consultants and assessors. We had to really make sure our figures stood up to prove to ourselves and the funder that we had a viable proposition both now and in the long term'.

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Other loan providers include:

- **Charity Bank** – unique in that it is registered as a bank with the Financial Conduct Authority but also as a charity with the Charity Commission. Charity Bank has particular experience in supporting groups wanting to buy premises from which to operate and from which to develop a sustainable income stream. www.charitybank.org
- **Triodos Bank** – lends exclusively to charities, business and community enterprises with clear environmental and social objectives. Their products include term loans, working capital loans, overdrafts, bank guarantees and other forms of credit facility. Each application is assessed on a case-by-case basis using their knowledge and understanding of these types of enterprises. www.triodos.co.uk
- **The Social Investment Business** – the UK's largest social investor, provides finance to the whole sector, including charities, social enterprises and community organisations. www.thesocialinvestmentbusiness.org
- **Charities Aid Foundation** – finances charity ventures deemed high risk by even the Community Development Finance Institutions. Like Charity Bank, the CAF works with charities in order to understand what type of finance is suitable for each individual case. www.cafonline.org
- **Unity Trust Bank** – specialises in providing membership and banking services to trade unions, charities, voluntary organisations, credit unions, and membership organisations. www.unity.co.uk

Credit Unions

Credit Unions are local Industrial and Providence Societies (IPs) that lend money to individuals and are based on savings history, rather than credit rating. Since the beginning of 2013, credit unions have been able to lend money to charities, community groups and social enterprises as well as to individuals.

Where to go next:

- **National Council for Voluntary Organisations (NCVO)** – provides detailed information on loans: www.fundingcentral.org.uk. They also have a guide to loans you can download: www.ncvo-vol.org.uk/uploadedFiles/Sustainable_Funding/Loan_Finance/Guide_to_Loan_Finance.pdf
- **The Community Development Finance Association** has a handy 'Finding Finance directory' on its website, where you can search for loan finance: www.findingfinance.org.uk
- **Civitas report** on credit unions' solution to poor bank lending – <http://civitas.org.uk/pdf/CreditUnions.pdf>
- For any further information, guidance and support, please visit www.gmvss.net

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