



LOAN FINANCE

a funding information leaflet from *funderfinder*

Funding for not-for-profit organisations has traditionally been in the form of grants. Charities and not-for-profit organisations have often faced problems in accessing traditional sources of funding from commercial banks because of their lack of a secure track record or conventional security. This is particularly the case when groups are based within disadvantaged communities. However, many leading voices in the sector are now talking about 'non-grant' forms of finance for voluntary and community groups - things like loans and social venture capital - and the Bank of England produced a report (May 2003) for government making recommendations to improve access to this type of finance for organisations with social aims.

A more 'business-like' approach to financing certain types of voluntary and community sector activities has emerged – to some extent using finance models that are well established in the United States. These models are based on the view that if you provide goods and services that can make a surplus, you should make a surplus. You can then fund expansion and improvements through loans, because they can be re-paid from that surplus.

Should you consider a loan?

So, what sort of organisations could consider loan finance instead of – or as well as – grants? Mainly those voluntary and community sector organisations that provide goods and services – perhaps under contract to a local authority – and who can make a surplus from the activity. You may want a loan to kick-start new ideas and projects straight away, to help pay for building adaptations or to smooth cash flow fluctuations. You may want to use it as the last brick in a fund-raising campaign or to help you leverage other funds. Whatever the reason though, you will need to be confident that your activity really will make enough of a surplus to re-pay the loan, and be able to show that in a business plan.

Some advantages of loans are:

- loans can be quicker to arrange than grants
- loan agreements have fewer strings attached than some grants
- loans can be a lot less bureaucratic
- your cash flow can be easier to predict and plan for
- loans aren't paid in arrears.

Disadvantages:

- the money needs to be paid back
- some interest on the loan will also have to be paid
- it might be hard to get a repayment period that works for you
- a loan might mean taking on more risk than a grant would.

Who provides loans?

A number of organisations offer loans to not-for-profit organisations and specifically for social enterprises. Some of the large charitable trusts are also experimenting with loans as well as grants. Lenders will tend to look for both social and financial return. They will take on different levels of risk, focus on different areas and have varying levels of engagement with community organisations. Bear in mind that you may have had to have been turned down by a commercial bank before you can apply for funding from one of these sources. Listed below are a few of the major sources of loans. However, this is not a comprehensive list. For more ideas look at *Social enterprise resources*, a list produced by NAVCA, available to download from their website at:

www.navca.org.uk/localvs/toolkits/

Charity Bank

Charity Bank, launched in 2002 by Charities Aid Foundation, is the UK's first not-for-profit banking facility, aimed at charities which do not have access to mainstream lending facilities. Its sole business is to attract beneficial deposits in order to create a source for affordable loans for charitable purposes and provide related support services for the charitable sector.

The bank can lend to any organisation for **exclusively** charitable purposes. This includes community associations, community businesses, social landlords, and also for-profit companies.

It provides loans for:

- working capital
- short term bridging loans against delayed grants or other identified income
- new development funding or income generation
- kick starting or underpinning a fund-raising programme
- longer term asset acquisition, development or refurbishment
- property renovation
- capital equipment
- the 'final brick' in a fund-raising campaign
- extension of activities
- stabilisation funding in some circumstances.

Loans can be up to £1,000,000, to be repaid over a period of between three months and ten years (25 years for mortgage loans) at concessional interest rates of approximately 5%-7%. Most loans are secured and in no circumstances will loans be commuted to grants. Applicants must demonstrate commitment to the project or loan need, which may take the form of other funding sources, own funds, 'sweat equity' contributions or concrete efforts to raise additional funding elsewhere. You must also show how you intend to repay the loan.

Further information

Full details and loan application form are available from the Bank's website:

www.charitybank.org

Head Office: PO Box 398, 194 High Street, Tonbridge, Kent TN9 9BD, tel: 01732 774040, fax: 07324 774069

Other banks

Other banks which give loans include:

Triodos www.triodos.co.uk - lends money to projects with clear social, environmental and cultural goals)

Unity Trust Bank www.unity.uk.com

Bank of Scotland Not For Profit Division

www.bankofscotland.co.uk/corporate/day-to-day-banking/nfp/expertise.html

The Social Investment Business

This is now the UK's largest social investor and provides finance (in the form of loans or grants) to the whole sector, including charities, social enterprise and community organisations. It manages the Futurebuilders England Fund, Communitybuilders Fund, Social Enterprise Investment Fund and the Modernisation Fund. Its website is a good starting point for information about all of those funds - www.socialinvestmentbusiness.org

In brief:

Futurebuilders England is the £215m investment fund to help the third sector deliver better public services. It provides a range of products, including loan financing, grants and professional support, designed to meet the varying needs of third sector organisations and help them compete for public service contracts. There are various loan packages available, depending on the size of your organisation. Loans are available from £3,000 upwards with interest rates at 6%.

Website: www.futurebuilders-england.org.uk

The **Social Enterprise Investment Fund** is a £100 million Fund that provides loans, grants and professional support to social enterprises involved in the delivery of health and social care services. It offers a number of financial products from start up and growth grants to loan-based investments of up to £10m.

Website: www.dh.gov.uk/seif

Communitybuilders is a £70 million fund that provides loans, grants and business support to multi-purpose, inclusive, community-led organisations (sometimes known as Community Anchors).

Website: www.communitybuildersfund.org.uk/

The **Modernisation Fund** is a £9.5 million fund that provides interest-free loans of between £30,000 and £500,000 to help organisations be more resilient to the impact of the economic downturn.

Website: www.modernisationfund.org.uk

Venturesome

Venturesome is Charities Aid Foundation's own in-house service providing custom-built funding for charities. It aims to fill the gap in the financing spectrum between grants and bank loans. Venturesome will fund charitable organisations which are not registered charities; revenue or capital funding; and all types of charitable activity, but with an emphasis on high social impact. Loans can be between £20,000 and £350,000 at an interest rate of around 6%-8%.

Further information

Charities Aid Foundation, St Andrew's House, 18-20 St Andrew Street, London EC4A 3A, tel: 0207 832 3026 or look at their website: www.cafonline.org/venturesome/

Adventure Capital Fund

The Adventure Capital Fund (ACF) was launched in 2002 with the aim of delivering a new form of long term investment into community enterprises. Operating in England, it aims to help community enterprises become financially sustainable through a mixture of loans, grants, mentoring and support services.

There are a number of different funding streams available, but only community enterprises can apply. The fund welcomes applications from any organisation that meets their core criteria, and are particularly interested in hearing from organisations that:

- are or could become community anchors
- are led by members of Black and or Minority Ethnic communities (BME)
- rural organisations
- are pioneering new ways of working
- can demonstrate excellence in what they do and inspire best practise in others.

The fund is **currently closed** to new applications (January 2010) so check their website for further details.

Further information

6 St Andrew Street, London EC4A 3AE, tel: 020 7842 7760, website: www.adventurecapitalfund.org.uk

The Social Enterprise Loan Fund

Previously called the Local Investment Fund (LIF), TSELF makes loans of between £25,000 and £250,000 to economically viable social and community enterprises in areas in need of regeneration in **England** which are unable to secure sufficient funding from mainstream sources. It aims to help organisations that have a social impact, especially those working in disadvantaged communities and new loans will be targeted at organisations operation in one of the 25% of most deprived boroughs or wards in England.

There are Regional Social Enterprise Loan Funds available in the North East, North West, East Midlands, West Midlands and South East regions.

Further information

7th Floor, Ibex House, 42-47 Minorities, London EC3N 1DY, tel: 020 7680 1028, website: www.tself.org.uk

Social Investment Scotland

This is a partnership between Scotland's four largest banks and the voluntary and public sectors to provide competitive loans and business support to not-for-profit organisations which have the potential to take out a loan, but which do not fit the lending criteria of commercial banks. The loan must have a social purpose and applicants must have been turned down by a bank for all or part of the amount required. The minimum loan is

£10,000, the maximum £250,000 and interest rates are at a fixed rate of approximately 8%.

Further information

Loan Enquiries, 2nd Floor, 1-2 St Andrew Square, Edinburgh EH2 2DB, tel: 0131 558 7706, website: www.socialinvestmentscotland.com

and also

Co-operative & Community Finance - www.icof.co.uk - lends to co-operatives, employee-owned businesses and social enterprises. All types of social enterprise are able to apply including community businesses, development trusts and businesses developed from the charitable and voluntary sector.

Big Issue Invest - www.bigissueinvest.com is an extension of The Big Issue which aims to encourage business-like responses to social problems by lending to social enterprises and Community Development Finance Institutions (CDFIs).

Learning Launchpad - www.learninglaunchpad.org is part of the Young Foundation. It provides investments, of up to £30,000, to social organisations in their early stages of development which offer practical learning opportunities to young people.

Further information

Community Development Finance Association (CDFA) is the trade association for financial institutions which provide capital and support to individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets. It has a search facility on its website - Finding Finance – which lists CDFA members that give loans. See: www.cdfa.org.uk

NAVCA produces a very detailed list of resources for social enterprise. It is updated annually and is downloadable from their website: www.navca.org.uk/localvs/toolkits/

NCVO's Funding Central website has a section on loan finance including publications you can download from: www.fundingcentral.org.uk/Page.aspx?SP=6059

More information for social entrepreneurs and social enterprises can be found on the UnLtd website: www.unltd.org.uk. However, see also *Social enterprise resources* from NAVCA - details above.

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