



# 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?

There are now a number of organisations which 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. Listed below are some of the possibilities. 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.

### 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](http://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 gives loans include:

**Triodos** [www.triodos.co.uk](http://www.triodos.co.uk) - lends money to projects with clear social, environmental and cultural goals)

**Unity Trust Bank**  
[www.unity.uk.com](http://www.unity.uk.com)

**Bank of Scotland Community Division**  
[www.bankofscotland.co.uk/corporate/day-to-day-banking/community-banking](http://www.bankofscotland.co.uk/corporate/day-to-day-banking/community-banking)

### **Futurebuilders**

**Futurebuilders England** is the £215m government-backed investment fund to help the third sector deliver better public services. It provides loan finance to a range of organisations including charities, social enterprises, community interest companies, voluntary groups and community organisations that are contracting, or would like to start contracting, for the delivery of public services.

Loans will usually cover either capital asset costs (for example building purchase, construction or refurbishment) or working capital (the money needed to support an organisation through the early stages of a scheme, before it can generate income). The minimum loan is £30,000 for a period of between 12 months and 25 years. Interest rates are decided individually, but are usually around 6%.

#### *Further information*

Newcastle office: Level 14, Cale Cross House, 156 Pilgrim Street, Newcastle-upon-Tyne NE1 6SU, tel: 0191 269 2850, fax: 0191 269 2851.

London office: 3rd Floor, 3-5 Rathbone Place, London W1T 1HJ, tel: 020 7927 6340, fax: 020 7927 6341.

Website: [www.futurebuilders-england.org.uk](http://www.futurebuilders-england.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 £200,000 at an interest rate of around 4%-6%.

#### *Further information*

John Kingston on tel: 07795 358717 or Sarah Thomas on tel: 07795 655422 or Joe Ludlow on tel: 07849 467805, or look at their website: [www.cafonline.org/venturesome/](http://www.cafonline.org/venturesome/)

### **Adventure Capital Fund**

The Adventure Capital Fund (ACF), is a LIF initiative (see below), with the aim of delivering a new form of long term investment into community enterprises. Operating in England, it aims to fill the investment gap that faces community enterprise organisations. It is a partnership between three government departments, several Regional Development Agencies and leading players in the field of social and economic regeneration.

Only community enterprises can apply to this fund, this can be trade or any other income-generating activity, where the organisation intends to make surpluses that will be re-invested for the benefit of the community. 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.

*Further information*

The website is: [www.adventurecapitalfund.org.uk](http://www.adventurecapitalfund.org.uk) or contact them at c/o LIF (see below), tel: 020 7488 3455.

**Local Investment Fund**

The Local Investment Fund (LIF) Fund makes loans of between £25,000 and £250,000 to economically viable social and community enterprises in areas in need of regeneration in **England** where loans can't be raised on reasonable terms from conventional market sources. It is a partnership between the Office of the Deputy Prime Minister, Business in the Community and the private sector led by NatWest, with the aim of overcoming the funding gap often experienced by social enterprises. The Fund makes loans to not-for-profit organisations and community based enterprises which can demonstrate economic viability and are keen to build sustainability and reduce dependence on grants.

LIF is in the process of establishing Regional Community Loan Funds in each of the English regions. These funds focus on the local communities in each region, with the aim of building a close connection between the funds, the clients and the sponsors. The regional funds make loans of between £15,000 and £100,000, although the upper limit varies from region to region. There are currently eight Regional Community Loan Funds: North East, Merseyside, North West, South West, South East, East Midlands, West Midlands, Eastern, plus Yorkshire and Humber (in development).

*Further information*

[www.lif.org.uk](http://www.lif.org.uk) or contact: Local Investment Fund, 7th Floor, Ibex House, 42-47 Minories, London EC3N 1DY, tel: 020 7680 1028.

**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 £200,000 and interest rates are at a fixed rate of approximately 5%-7%.

Social Investment Scotland and SCVO have produced a guide to borrowing for social economy organisations in Scotland which lists sources of loans. "Taking a Loan of Finance" is available from tel: 0131 558 7706 or by emailing: [info@socialinvestmentscotland.com](mailto:info@socialinvestmentscotland.com) or by downloading separate sections of the publication from their website.

*Further information*

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

**and also ....**

**Co-operative Action** - [www.co-operativemembership.coop/en/fund](http://www.co-operativemembership.coop/en/fund) - gives loans to co-operative, mutual and social enterprises.

**Co-operative & Community Finance** - [www.icof.co.uk](http://www.icof.co.uk) - lends to co-operatives, employees owned business 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.

**BIGinvest** - [www.biginvest.co.uk](http://www.biginvest.co.uk) 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).

### **Social entrepreneurs**

More information for social entrepreneurs and social enterprises can be found on the UnLtd website: [www.unltd.org.uk](http://www.unltd.org.uk) . Specifically, they have a section on tools and resources for social entrepreneurs which lists many sources of funding. See: [www.unltd.org.uk/useful\\_links.php?Section=Further%20Funding](http://www.unltd.org.uk/useful_links.php?Section=Further%20Funding)

#### *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 directory - Finding Finance – which offers a comprehensive listing of organisations that offer loans and other financial services to social enterprises, charities and businesses. It is also available as an online directory. Check their website: [www.cdfa.org.uk](http://www.cdfa.org.uk)

NCVO's Sustainable Funding Project website has a section on loan finance and the publications listed below are downloadable from there: [www.ncvo-vol.org.uk/sfp/loanfinance/](http://www.ncvo-vol.org.uk/sfp/loanfinance/)

#### *The Brief Guide to Loan Finance for Trustees, pub. NCVO*

Supported by Charity Bank, it introduces the benefits, presents some factors that should be thought through and signposts to further information.

*The Guide to Loans and Other Forms of Finance*, produced by the Sustainable Funding Project for the Finance Hub, provides an introduction to accessing loans and a description of a variety of scenarios in which loans can be used.

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