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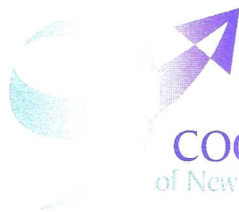
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COOPERATIVE FUND
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SPARE A DIME?

LOCAL BANKS LEERY OF LENDING TO NONPROFITS

Despite Bleak Prospects, Some See Opportunity

BY LAURA SCHREIER
COMMERCIAL RECORD STAFF WRITER

Banks say they're lending to any and all businesses that can show solid financials. But for many nonprofits, that's a tough sell in the current market.

Everybody knows that nonprofit donations drop during a down economy. But that squeeze is only part of the trouble. Donations are one thing, but nonprofits' investments and endowments have been yielding smaller returns in the past few years, and nonprofits dependent on government funding have seen that money dry up as states and cities tighten their belts.

Those two factors, in turn, make it a battle to convince a bank loan officer to extend credit until cash flow improves, sources told The Commercial Record.

"The demand for our services is huge this year," said Rebecca Dunn, executive director of the Cooperative Fund of New England, which provides an alternative source of lending for nonprofits and cooperatives, many of whom have had a tough time finding loans from traditional institutions. The fund, based in Massachusetts, lent \$2 million last year; this year it's already made \$4 million in loans.

Silver Lining?

The wobbly economic recovery has created upheaval for

some nonprofits. But for some banks, the financial crisis has its positive effects, too, such as opportunities to scoop up nonprofit business ignored by other lenders.

A perfect example, for Waterbury-based Webster Bank, is in the field of higher education. Jay Ryan, Webster's senior vice president of government and institutional banking, said that before the financial crisis, credit was easy to come by and the capital markets were kinder. Today is a different story.

"I don't know about your 401(k), but mine doesn't look anything like it used to," Ryan said. Now, the bigger investment banks have swarmed "upstream"

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Potential PR Pitfalls Lead Some Banks Away From Nonprofits

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to focus their efforts on major institutions with whopping endowments. But that's left a lot of smaller schools in the \$10 million annual revenue range – still strong, albeit with less cash flow – looking for a different banking relationship. That's where Webster wants to step in.



JAY RYAN

Ryan said he sees “a tremendous opportunity” for Webster. The bank is the right size, has the expertise and is in the education-rich Westchester-to-Boston footprint.

As for other types of nonprofits, Ryan said there are still good loans to be made for banks that are well-acquainted with the borrower and know its financial health enough to be confident in its success.

A Mixed Bag

John Horak, founder of the nonprofit organizations practice group for Hartford-based law firm Reid & Riege, said he knows of many nonprofits that have suc-

cessfully secured loans. But in some ways, it's a mixed bag.

“Banks are being a lot more diligent in looking at balance sheets,” Horak said. Because of their different setup for revenues, collateral and cash flow, nonprofit loans

are often handled through specialized departments, he said, which perform due diligence differently than for-profit companies.

One important factor: It's virtually impossible to foreclose on a nonprofit, largely because of the heat the bank would take from the community. That's a headline nobody wants, Horak said, and with

that in mind, banks will be extra careful before they go into business with a nonprofit.

Dunn says that's the story she's seeing with the groups the Cooperative Fund of New England works with.

One, a day care and counseling service for at-risk children in Hartford, had been bounced from bank to bank in its search for a loan before it came to her organization.

“They had just pulled their hair out trying to get funding from other banks,” she said. In addition, the fund has worked with entities such as an organic farm in New Britain, a startup food cooperative in New Haven and more small entities that have struggled.

Dunn's organization gets money in the form of either grants or investments from many religious organizations, private investors and banks themselves. Bridgeport-based People's United Bank's subsidiary, Chittenden Bank, is a big supporter, as well as Citizens Bank and New Haven-based NewAlliance Bank.

But many nonprofits are still struggling, she said. While banks are happy to lend to larger, secure nonprofits, many small organizations that provide vital community services are left out. ■

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