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Credit Crisis Is Leaving Charities Low on Cash

By STEPHANIE STROM

SCO Family of Services, a nonprofit agency based on Long Island, started the year with a \$25 million credit line at its bank, which it planned to use to pay its bills while awaiting government reimbursements and donations. Now, after its bank has cut its credit line twice and withdrawn a promise to support a critical bond offering, the organization is worried about whether it can pay its employees this month.



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Nancy Biberman, president of Whedco, a housing group in the Bronx, wants Congress to create a \$15 billion bridge loan program for nonprofits that cannot tap banks for short-term loans.

“I spend a good part of my day every day just trying to manage cash flow,” said Johanna Richman, chief financial officer at SCO, which provides services to children with developmental disabilities. SCO is one of hundreds of charities caught in the credit crunch as skittish banks reduce their lines of credit or cut them off entirely at a time when the need for their services is climbing sharply, nonprofit leaders say.

“While nonprofits are working feverishly to accommodate increased demand, they are facing severe financial constraints that are threatening their ability to go on, much less expand their services,” said Diana Aviv, president and chief executive of Independent Sector, a nonprofit trade association.

Almost three-quarters of nonprofits in the United States receive some type of government financing, according to new research by the School of Social Service Administration at the University of Chicago, and about half of those count on that aid for at least half of their budgets.

As a growing number of states delay payment, nonprofits must rely on lines of credit to help them get by. In Illinois, the state is running as much as 150 days late in making reimbursements, and California has told nonprofits to expect i.o.u.'s in lieu of payment starting next month.

“You can just imagine a nonprofit walking into a bank with this tattered envelope from Sacramento saying that some day the state government will pay it,” said Thomas Peters, chief executive of the Marin Community Foundation in Marin County, Calif. “How’s a bank to make a loan against that promise?”

The Marin foundation has been providing emergency and short-term grants to keep organizations like SCO alive, but Mr. Peters said it could not meet the demand for such money.

Independent Sector has asked Congress to have the federal government make payments for social services directly to nonprofits, rather than funneling the money through state governments, as is the current practice. It is also seeking a \$15 billion bridge loan program for nonprofits that can no longer tap banks for short-term loans.

Nancy Biberman, president of the Women’s Housing and Economic Development Corporation, or Whedco, which provides services like child care and low-income housing in the Bronx, endorsed the idea of a bridge loan fund.

“We don’t see any economic recovery money that’s clearly flowing into poor communities,” Ms. Biberman said. “Infrastructure projects are not really where it’s at when basic survival is at stake for so many people.”

Whedco has just finished building what it calls the largest low-income “green” housing development in the country. The project was financed with a \$39 million loan from a major bank.

Last summer, New York City committed to provide \$2 million more to the organization to underwrite additional amenities at the site, but the bank’s risk managers turned down its request to increase the loan by that amount because Whedco did not yet have the money in hand.

“They were essentially challenging the full faith and credit of New York City,” Ms. Biberman said.

Moreover, in December the bank froze a \$500,000 reserve fund held to guarantee interest payments, even though the project was 95 percent complete. “That’s our money,” Ms. Biberman said, adding that, at most, Whedco would owe the bank 10 percent of that amount when it completed the project in the next few weeks.

The inability to access the reserve fund has forced Whedco to ask some vendors to extend payment terms, a juggling act many nonprofit leaders are now performing. Despite such complaints, Ms. Biberman and other nonprofit leaders declined to identify their banks for fear of further souring relations with them.

Keith Leggett, a senior economist at the American Bankers Association, said banks were applying the same tighter credit assessment standards to nonprofits as they were to businesses. “Donations and gifts are down, and that affects nonprofit creditworthiness,” he said, adding that “diminished or delayed payments” from state and local governments were also having an impact.

Chicago Commons, a social services group with an annual budget of \$17 million, was lucky to have a \$700,000 line of credit at ShoreBank, which is known for its support of community-based nonprofits, when the state of Illinois fell \$2.5 million behind in its reimbursements in December.

“If we hadn’t had that credit line,” said Dan Valliere, the executive director, “we would have missed payrolls, which probably would have meant service cuts.”

Nonetheless, the agency is postponing repairs to its facilities, including a new roof for a day care center.

This month, the state borrowed \$1.4 billion to pay for services provided last summer and in the early fall, which reduced the amount it owed Chicago Commons by about half. Mr. Valliere said the organization used the money to pay down its credit line and catch up with some bills, “but the comptroller’s office told us not to get used to this.”

Moreover, Mr. Valliere said that use of the credit line was likely to increase the organization’s expenses by as much as \$30,000, money that could be used to pay an employee or buy a new roof.

“Try getting a donor to pay your interest expenses,” said Paul S. Castro, executive director of Jewish Family Service of Los Angeles, which racked up roughly \$70,000 in interest costs while California legislators wrangled over the state budget.

Now, the bank has told Mr. Castro that it will not allow any withdrawal from Jewish Family Service’s \$3 million credit line without collateral — and it does not consider the promise of state payment sufficient collateral.

“That’s a real burden for us,” Mr. Castro said. “All we really have as assets are contracts with the public sector.”

At least that bank is willing to negotiate. SCO’s bank simply informed the organization one day that it would not provide a \$12 million letter of credit needed for a bond offering for a new school for disabled children and renovations on other facilities.

That forced the organization to borrow that money from its credit line, which the bank has cut to roughly \$16 million, from \$25 million.

Kids Hope United, a nonprofit offering services in different states to support needy children and families, recently sought bids from 11 banks to handle virtually all of its banking needs. Seven declined to even make a proposal, “including two that have been taking me to lunch for years hoping for business,” said David McConnell, the organization’s chief financial officer.

“There’s a triple-witching effect,” Mr. McConnell said. “You simply have less money to run operations and the government is paying more slowly than ever on top of that, which means you need the bank’s money more, and that makes banks more nervous about lending it to you.”

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