

Loans

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The availability and accessibility of loan finance to the voluntary sector has increased considerably in recent years. Loans can benefit voluntary sector organisations in many ways but are not appropriate for every organisation. This information sheet is intended to provide a brief overview on loan finance to help organisations decide if it is appropriate for them.

What is a loan?

A loan is a financial transaction in which one party (the lender) agrees to give another party (the borrower) a sum of money with the expectation of total repayment. A lender can ask for interest payments in addition to the original loan amount.

The terms and conditions of a loan transaction are commonly detailed in the form of a contract. A contract will usually state repayment terms, including any arrangement fees, the amount owed, agreed interest rates and repayment due dates.

Loans are simply another way of financing an organisation and should not be considered as a replacement for grants.

Is loan finance right for your organisation?

As with all forms of income generation, organisations should think strategically about embarking on new activity i.e. taking on a loan.

Before considering applying for a loan, organisations should be at a stage where thorough business and financial planning has demonstrated the organisation's ability to generate sufficient income to meet loan repayments.

The three discussion points listed below can be used to assist an organisation in determining whether loan finance is an option:

1. What will the loan be used for?

Loan finance can be utilised for a variety of purposes, including:

- Purchasing property, land, machinery or equipment

- Renovating existing property
- Managing cash flow problems and grant income cycles
- Establishing new projects or ventures
- Investing in organisational growth

2. How will the loan benefit your organisation?

An organisation considering loan finance should be clear about the purpose of the loan:

- Will the loan allow the organisation to better achieve its aims and objectives?
- Will the loan assist in helping to improve service provision or reach more beneficiaries?
- Will the loan contribute to the future sustainability of the organisation by providing opportunities for further income generation?

3. Are there appropriate organisational structures and systems in place?

An organisation should be able to prove that it has the ability to take out a loan and repay it:

- Does the organisation's governing document allow for borrowing money and potentially allowing assets to be pledged as security?
- Does the organisation have robust financial systems in place to manage such an investment?
- Is the organisation incorporated so as to protect the trustees or directors from any personal liability attaching to a loan?
- You will more than likely have to pay the loan with unrestricted income that you generate. It is very rare to find a funder who will allow a grant for a loan repayment

Advantages and disadvantages

There are both advantages and disadvantages to utilising loans as a source of financing an organisation.

These should also be considered before action is taken:

Advantages

- **Faster to arrange than grants** – application and decision-making processes are usually a lot quicker
- **Not as competitive as grant funding** – loan applications can be approved on merit rather than suitability to a funder's criteria
- **More flexible than grant funding** – loan applications can be tailored to what best suits an organisation's needs rather than a grant funder's criteria
- **Reduced output-related monitoring and reporting than grant funding** – however the need to provide timely financial information might be a condition of the loan
- Loans are usually paid in advance, not in instalments or arrears as grant funding

Disadvantages

- You have to pay it back
- Varying levels of interest

- High arrangement fees can sometimes be applied
- Taking on the responsibility of a legally binding agreement
- Offering an asset as security

Providers of loan finance

Apart from commercial high street lenders, there are a large number of organisations which offer loans tailor-made to voluntary sector organisations. Many large charitable trusts have also recently begun to experiment with offering loan finance.

You may also want to consider the ethics of your organisation and the type of lender you go to. For example if you are an environmental charity will you get a loan from a bank investing in oil and gas exploitation?

Listed below are some providers of loan finance specific to the voluntary sector, further information on each organisation can be obtained by utilising the contact details below:

Big Issue Invest

Tel: 020 7526 3434

enquiries@bigissueinvest.com

Charities Aid Foundation – Venturesome

Tel: 0207 832 3026

Charity Bank

Tel: 01732 774 050

loanenquiries@charitybank.org

Co-operative & Community Finance

Tel: 01179 166 750

info@coopfinance.coop

Development Bank of Wales

Tel: 0800 587 4140

info@developmentbank.wales

Social Investment Cymru – WCVA

Tel: 0300 111 0124

sic@wcva.cymru

Triodos Bank

Tel: 0800 328 2181

businessbanking@triodos.co.uk

Unity Trust Bank

Tel: 0845 140 1000

us@unity.co.uk