

## **After the Meltdown: The Financing Environment for Not for Profit Organizations**

---

Since the meltdown of the economy and tightening of credit just over a year ago, the financing options for the not for profit borrower have changed dramatically. With many of the larger financial institutions suffering diminished credit ratings, deals secured by letters of credit are more expensive and more difficult to obtain. Tax exempt borrowers who accessed insurance company guaranties to provide credit support for their bonds are now realizing that in many instances, their own financial condition is stronger than that of the guarantors. With the credit markets having changed so much in the past 12-18 months, where can the not for profit organization go to finance new or existing projects? Here are a few observations on the current market in New England:

- Community banks, which stood on the sidelines for much of the commercial real estate run up during the mid decade, are providing much of the capital; especially for transactions less than \$15-20mm.
- Organizations with strong balance sheets that are generating positive operating cash flows are still being well received by lenders.
- Many of the tax exempt financings are now being structured as private placements and funded by local lenders as opposed to being sold into the public markets.
- If not for profit borrowers are seeking bond financing enhanced with a letter of credit, they are finding that annual fees are usually running anywhere from 1 to 3%, a significant increase from 12 months ago.
- Certain qualifying borrowers can access government guaranty and tax credit programs that can greatly improve the prospects for a successful financing.
- Although existing swap agreements can be difficult to unwind, there are some options to execute a refinancing without taking a major financial hit.
- Many not for profit owned real estate properties in New England have seen their values decline by 10-20% in the past 12-18 months. This is a significant decline but not nearly as steep as in other parts of the country such as Texas, California and Florida.

In general, not for profit borrowers are able to obtain reasonable financing structures if they are not overleveraged and prospects to generate operating surpluses are healthy. With lenders becoming more concerned about credit exposure to individual borrowers, it can be very prudent to explore available funding options and “not keep all of your eggs in one loan basket”. If interested in learning more about financing options available to not for profit organizations, contact Keith Wentzel at [kwentzel@fantinigorga.com](mailto:kwentzel@fantinigorga.com) or call 617-897-1126.