Be Ready to Borrow: Practical Steps Nonprofits Can Take Now

Description

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Nonprofits that prepare early are better positioned to access credit quickly when needs arise. Lenders move faster and negotiate more favorably when an organization's governance, regulatory, and financial house is in order. The following steps help ensure your nonprofit is "lender-ready" on short notice.

First, maintain accurate corporate records and a complete minute book. Your minute book should include the articles and all amendments, current bylaws, adopted board resolutions, minutes for the board and committees, written consents, and rosters of directors and officers. Ensure that actions authorizing indebtedness, granting security interests, opening accounts, and designating signatories are clearly documented and easy to locate.

Keep your bylaws current. Review them at least annually to confirm quorum and voting provisions, officer roles, committee authorities, and emergency or special meeting procedures align with actual practice. If your bylaws require specific approvals to incur debt or grant collateral, confirm the process is workable and that the board understands the steps.

Verify that the Secretary of State and other public records accurately reflect your current legal name, principal office, directors and officers, and registered agent. Inconsistencies between public filings and internal records can delay diligence and closings. If you operate in multiple states, check each jurisdiction where you are qualified to do business and correct any discrepancies.

File all annual or biennial reports on time and maintain good standing in your state of incorporation and any states of qualification. Many lenders will require proof of good standing, and lapses, even if curable, can slow a transaction.

Stay current with IRS compliance. File Form 990 annually (or the applicable variant) and submit extensions when needed. Keep your IRS determination letter, employer identification number confirmation, and the last three years of filed returns readily accessible as lenders often request these items early in diligence.

Identify existing restrictions and encumbrances before you talk to lenders. Inventory current debt, including notes, lines of credit, leases, and any negative covenants or consent requirements that could limit new borrowing, liens, or pledges. Review donor and grant agreements for restrictions on use of funds or assets and note any approval or notice obligations.

Consider organizing a simple lender-ready package or secure data room. Include core corporate documents, bylaws, minute book extracts authorizing debt, good standing certificates, IRS determination letter and recent Forms 990, recent financial statements, budgets, cash-flow projections, major contracts, debt documents, grant agreements with material restrictions, insurance certificates, and a collateral and lien summary.

Proactive housekeeping reduces transaction friction and can improve pricing and terms. If a borrowing need arises, these steps will allow you to move from inquiry to approval and closing far more quickly.

Preparing for financing is not just a financial exercise – it is also a governance and compliance exercise. The attorneys in Partridge Snow & Hahn's Nonprofit & Tax-Exempt Practice help nonprofits strengthen the legal and operational foundations that support sustainable growth and access to capital. For questions about nonprofit governance, financing, or organizational readiness, please contact a member of our team.

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