What's the Best Way to Pay Off Your Debts?

If people won't donate to help with your debt, what should you do?

Q We had to borrow money to get our nonprofit up and running. Now we need help paying off our debt. I know people don't like to "donate to a debt" so that troubles me. If we can't ask donors to help, how do we go about paying the debt?

A Many organizations have struggled with this problem. There's no one answer. Different options may be available, depending on the details of your debt. Start by answering some questions about your situation. For instance:

Did you incur the debt to pay day-to-day operations or capital expenses?

Was it a personal or organizational loan? Was it put on a credit card or did you take out a bank loan?

Did the full board approve it, a small group made up of your "financially-minded" directors, or the founder?

Is the interest rate low enough that you can carry it for a while with minimal impact, or do you hear "ka-ching, ka-ching, ka-ching" ringing in your ears each night, causing you to lose sleep?

What are the terms? Do you have some time to pay this back, is the loan coming due soon, or is it, perhaps, a balloon loan?

Do the bulk of your funds come from individual donors, foundations, corporations, government grants, or earned income?

Are you currently operating in the black or at a deficit?

Do you have an exit plan if you can't pay back the debt?

What is your mission area? Even your mission matters when it comes to debt.

Without the answers to these questions, it's difficult to say with confidence that the ideas presented here will work for you, but I hope that one or more will move your organization closer to debt-free status.

If you haven't already had strategic discussions with your entire board about retiring the debt, make that your first priority. I'm sure you have some smart, creative people on the board. Even if they don't consider themselves strong in the financial arena, working together they'll likely come up with solutions that even financial wizards wouldn't think of individually. The possibilities, which might include new income streams, are infinite. The most realistic will emerge if board members begin with defining what success will look like and then strive to get as many options as possible on the table, measuring each option against their picture of success.

An added benefit of engaging board directors as problem-solvers is that they're more likely to step up personally to ensure their solutions are implemented. If the loan is small enough, the directors may be able to cover it, or at least buy you some time.

In a similar vein, consider putting together a debt-retirement advisory council. Ask respected community leaders to commit their expertise and a limited amount of time, such as one or two meetings, to your mission. Their task: to help you determine the best strategies for closing out the debt and dealing with contingencies, including worst-case scenarios. Identify the best financial, mission-oriented, and creative minds in the city. Arm them (and your board) with the answers to the questions posed in the opening paragraph. Then, be receptive to their suggestions – even if it means cutting programs.

You're correct that most people don't want to donate to debt. However, perhaps your most dedicated supporters will, especially if you can communicate the results, the benefits to the community, that are attributable to the loan. Another group to solicit early in the game is entrepreneurs. They understand the need for startup funds.

When soliciting other donors, ask for unrestricted funds. More people today understand the value of such donations to an organization. You can use these funds to pay back your loan.

Be open about the loan, and why you felt you needed to incur it at the time you did. Share, too, any complications you've had to deal with. This information will always come out eventually. You always want to be on the offense, not defense, so take the time to craft the dialogue in a way that reflects positively on you and the organization.

If you don't already have a policy regarding debt, create one. A key aspect to cover is whether you'll apply a percentage of all or some of (which?) the unrestricted funds, legacy gifts, earned income, and investments you receive to paying down any loans you have and, if so, what that

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> **"Measure each option against board members' picture of success."**

percentage will be. You might also want to spell out how funds will be applied – for instance, the percentage of each payment that will go toward interest and principal. For the future, include the level of risk you're willing to incur when considering debt.

Consider your assets. What do you have to trade with other organizations or businesses in the city in return for goods or services that you need? For instance, if you can use an agency's bookkeeper in return for desks you have in storage and don't anticipate using, you save operational funds that would have gone to your own bookkeeper that can now go toward paying down the debt. Or, if you have a facility, can you rent it out for some added cash?

Perhaps you can sponsor some sort of "burn the loan documents" event. Ideally, whatever you choose would be of interest to a lot of people – people who will participate just because it sounds fun, people who won't care that you're using the proceeds to eliminate your debt, who in fact think that makes the event even more fun. If you use this approach, make sure the event is easy and inexpensive to put on; otherwise you could find yourself in worse shape!

Finally, and most important, stay in conversation with your lender(s). They may be willing to work with you if you need more time or different terms. But they won't appreciate first hearing about problems once the money has come due.

Good luck!

– Terrie Temkin, Ph.D. (terriet@nonprofitmanagementsolutions.com), editor of You and Your Nonprofit Board *(charitychannel.com)*

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