

Managing Lender/Funder Relationships

Once you have estimated your facility space needs, development costs, and equity contribution, you can begin to call potential lenders. Before calling lenders, be prepared!

Questions Lenders May Ask

In deciding whether to loan money, lenders assess the risk of the potential project. Their primary objective is to make sure that you are a “good” risk (i.e., that the loan will be repaid as agreed and the chance of default is low). They will try to assess the ability of your school to make loan payments and remain open.

Be prepared to address the following questions and requests for information:

About the Project

- What is the size of the facility (in square footage)?
- What is the purchase price and/or appraised value?
- What are the estimated construction costs and total development costs?
- What is your equity contribution to the project? Where is the equity coming from (cash reserves, grants, real estate equity)?
- How much are you looking to finance?

About Your School's Operations, Finances and Growth Potential

- What is your school's operating revenue?
- What is your school's current financial condition? (Are you operating with a surplus/deficit? If your school is operating with a deficit how will you eliminate/manage it going forward?)
- How is the school's cash flow?
- How long has your school been open?
- When was the school's charter last renewed and when are you up for renewal? You should have general knowledge of the renewal process and be able to demonstrate that school is on track for renewal.
- What is your school's current and projected enrollment?
- Is there a waiting list and how many are on the list?

If your lender agrees to proceed, they will require audited financial statements for the last three years.

Questions To Ask Lenders

Securing the appropriate financing for your facility project is a complex and challenging process. Knowing the right questions to ask potential lenders is critical in discerning their interest and ability to finance your facility. At a minimum, ask potential lenders the following questions.

- Have you funded similar projects? If so, what and when?
If the lender has not financed a similar project (i.e., similar dollar amount, similar type of organization, etc.) you need to determine the likelihood that they will fund your project. Many banks have never financed a non-profit organization before and are not aware of how to underwrite such a transaction.
- Ask the person or persons representing the lending institution what their role is and if they are part of the decision-making process. Are they the underwriter or simply a salesperson?
- What has been the average dollar amount of your typical school/facility/community development loan?
Many lending institutions are interested only in funding loans of a certain dollar amount. If your loan request is more or less than the bank's typical loan amount, determine the likelihood is that they would provide your school a loan in the amount you need.
- What are your equity requirements?
If the lender is requiring equity (the school's cash contribution to the project) in an amount greater than what you have available, what is the likelihood the project will be funded?
- What is your Loan to Value Requirement? (Loan to Value is the relationship between the amount of a mortgage loan and the value of the real estate securing it.)
- If the lender is willing to provide financing at only 75% of the appraised value (purchase price plus any construction costs), how would the school finance the gap?
- What is the loan approval process at your lending institution? Who has the authority to approve this loan?
- With so many of the banks merging, the decision for loan approvals is often done in corporate offices in other states. If you are working with a large bank and requesting a relatively small loan amount what is the likelihood your project will be financed?
- How long will it take to find out whether the financing request has been approved?
- You need to get a specific time frame for the bank's approval process. Unfortunately, many banks don't say NO when they are not interested in financing a transaction. They simply drag their feet hoping you will seek financing elsewhere. If the bank cannot give you a timeframe for their decision, set your own. Six to 12 weeks is more than enough time.
- If approved, what are the expected general terms and conditions of the loan—i.e., interest rate, term, fees (application or underwriting fee, origination/commitment fee, legal fees, closing costs), etc.