

What's Next
Overdue Credit for Nonprofits
By Suzie Boss

Stanford Social Innovation Review
Summer 2013

Copyright © 2013 by Leland Stanford Jr. University
All Rights Reserved

tation of microclinics in North America. “We know that prevention works, but trends are going in the wrong direction,” says Alan Player of Humana, who serves as program manager for Team Up 4 Health. Kentucky, for example, has one of the highest obesity rates in the country. “We have to make it easier for people to recognize and ultimately adopt healthier habits,” Player says.

Willene Black, a lifelong resident of Bell County, has made walking a regular habit since going through the 10-month program with her brother. She says she has learned to read food labels carefully, eat more fruits and vegetables and less fried food, and avoid high-calorie treats when she’s out with her 11-year-old granddaughter. “She’s the light of my life, and now she’s gone from drinking pop all the time to drinking milk or water. She has her friends eating better, too,” Black says.

Leigh Ann Baker heads Team Up 4 Health for the Bell County Health Department. “We knew we had a need here,” she says. “We also know that people are community-oriented and that they would be supportive of each other.”

Weekly health education classes focus on “small things,” Baker says. Participants sample unfamiliar foods like avocados and hummus, set goals for regular exercise, and go with health educators on grocery shopping excursions and walking picnics.

After the first year of the program, 97 percent of Team Up 4 Health participants improved in at least one health indicator, such as losing weight or lowering their blood sugar levels. Follow-up surveys show that benefits have continued after the formal intervention ends.

An unexpected outcome of the initiative has been what

Leila Makarechi, COO of MCI, describes as “structural changes in the environment.” A new, five-acre community garden and two outdoor fitness parks, for example, offer visible evidence that good habits are taking hold in Bell County. Some local restaurants have even modified their menus to offer healthier choices. ■

NONPROFIT MANAGEMENT

Overdue Credit for Nonprofits

► Let’s say you’re a loan applicant with limited cash reserves and clients who are notoriously slow payers. Your odds of getting a loan approved are slim, even if you’ve been in business for decades.

Welcome to the financial reality that many nonprofit organizations face daily. “It’s a market failure,” says Pamela Davis, founder and CEO of the Nonprofits Insurance Alliance Group. “Most banks and credit unions don’t generally lend to nonprofits. They look at the way these organizations operate and say, ‘That’s not what we consider to be creditworthy.’” After 25 years of addressing another market failure—insurance coverage for nonprofits—Davis has stepped up, reluctantly, to create the first credit union in the United States that is specifically tailored for nonprofits.

“I spent a year trying to get talked out of this idea,” she says. “It’s such a big initiative.” In industry surveys conducted by Nonprofits Insurance Alliance, nonprofit leaders consistently bring up credit challenges as something they are eager to solve. “The amount of executive time and energy that goes into cobbling together solutions,” she adds, “takes time away from when these organizations could

be thinking creatively about better ways to serve their clients.”

The credit union will be sponsored by a newly formed organization, American Nonprofits. The National Credit Union Administration has given preliminary approval for membership eligibility requirements. Beyond startup funding, the new credit union aims to raise \$10 million in capital. Davis anticipates that a large portion of that sum will come from “patient capital” in the form of subordinated investments. The rest will come from a portion of member deposits that qualify as capital and from grants. (In April, the Silicon Valley Foundation approved a \$50,000 grant for American Nonprofits.)

In pitching this idea to potential supporters, Davis draws on more than two decades of experience with the Nonprofits Insurance Alliance Group. When she started the insurance cooperative in the 1980s, nonprofits were considered “too risky to insure,” she says. Yet without proof of insurance, nonprofits couldn’t qualify for grants or government contracts. “Commercial insurance companies would say, ‘Oh, those nonprofits—bunch of do-gooders, social workers, taking care of vulnerable populations. You can’t insure that.’”

The Nonprofits Insurance Alliance Group has proven otherwise, insuring 12,000 nonprofits in 31 states and the District of Columbia. It has generated earned capital of \$165 million and assets of \$330 million as well as returning \$26 million in dividends to its member nonprofits, according to 2012 audited financials. The self-sustaining model generates a 100-fold return on investment.

With about 80 percent of members paying for insurance by installment, “we know that

nonprofits are great credit risks,” Davis says. Occasionally, an organization will need extra time. “So often, it’s that the county is obligated to pay, or the city, or they’re waiting for a federal contract that’s due. When we have extended credit under those circumstances,” she adds, “we’ve never gotten burned.”

Late payments are a disruptive but common practice in the nonprofit sector. The Nonprofit Finance Fund found in its 2012 survey that 52 percent of nonprofits receiving federal support report late payments. Nonprofits “have different financial models, needs, and restrictions from for-profits, and can benefit from specialized financial services,” says Anthony Bugg-Levine, CEO of the Nonprofit Finance Fund.

The new credit union will offer products that take into account these unique needs. At a minimum, Davis expects to offer credit cards, lines of credit secured by government contracts, bridge loans, cash-flow lines, and loans for equipment, facilities, or vehicles. Employees, volunteers, and stakeholders of member nonprofits will be eligible for consumer products.

Technology will enable the American Nonprofits Federal Credit Union to run a lean operation without having to open bricks-and-mortar branches. Through a shared branching network, members of the new credit union will also be able to use the existing network of federal credit unions and ATMs.

If the new credit union succeeds with nonprofit customers, traditional lenders will likely take notice. “If you look at insurance, nonprofits are now competed for by insurers. The market has changed 180 degrees,” Davis says. “That’s the same thing we’d like to do on the credit union side.” ■