



Another Great Niche: Banking Nonprofits

small business business customers

Summary: More and more CFIs are courting nonprofits as customers, offering loans and other products and services. We discuss some of the unique financial needs of nonprofits and provide examples of how some CFIs are working with these customers.

As the late 19th century ushered in new decades of prosperity, the idea of giving back to one's community through established charities really took hold. In 1889, Andrew Carnegie released his "Gospel of Wealth" essay, encouraging the upper classes to donate to causes because they owed a duty to society for their wealth. The nonprofit sector significantly took off after 1969, when Congress [passed the Tax Reform Act](#) introducing Section 501(c)3 in the Internal Revenue Service Code, enabling nonprofits to offer tax exemptions to their donors. By 1980, the nonprofit sector became widely known as the country's "third sector," alongside the private and public sectors.

CFIs typically partner with nonprofits to further community goals like increasing financial literacy, building more affordable housing, and reducing hunger and homelessness. But more and more CFIs are also creating a business niche by courting nonprofits as customers for loans and other products and services. However, nonprofits have different financial needs and their income sources are very different from that of a for-profit business.

How Nonprofits Differ from Small Business Customers

With regular small businesses, there are some nuances from industry to industry, but their goals are all the same — to make a profit. Nonprofits are quite different from businesses in how they approach their finances, as they're subject to stricter rules that dictate how they operate. You'll need to be prepared for how those differences impact the service you provide them.

Here are a few of the biggest differences when it comes to banking a nonprofit:

- **Fund Restrictions:** Nonprofits manage diverse revenue streams, segregating funds for specific projects due to grant restrictions. This affects deposit options and loan repayment capabilities.
- **Terminology Differences:** Nonprofits use distinct financial terms like "[statement of financial position](#)" and "statement of activities," differing from small businesses with profit and loss statements. Understanding this language is crucial for effective communication.
- **Red Tape Challenges:** Nonprofits often [require board approval](#) for financial decisions, such as opening/closing accounts or adding account signers. Defined protocols and designated signers may impact banking processes.
- **Cash Flow Variability:** Similar to seasonal businesses, nonprofits experience fluctuations in cash flow. During active fundraising periods, donations may surge, but there are slower times with lower contributions. They may require assistance managing cash flow for sustained operations.

CFIs Working with Nonprofits

There are a lot of unique ways to work with nonprofit organizations. Here are several examples of how [CFIs tailor their banking products to nonprofits](#):

Heartland Bank in Whitehall, Ohio. Like other CFIs with this niche, Heartland structures loan terms to nonprofits based on the timing of their funding sources. One customer, the local high school’s athletic booster club, wanted to install new turf on its baseball field for a cost of \$350K. The club had more than half of the needed money after its annual fundraising event, and the CFI loaned them the balance to be repaid after subsequent annual events. The loan was fully paid off after four years.

“Oftentimes, nonprofits’ loan or financing requests are exception based,” [says CEO Scott McComb](#). “Nonprofits need those exceptions, and they need people who can understand how they operate and how they’re funded, which makes it a nice fertile ground for community banks to flourish.”

United Community Bank in Greenville, South Carolina. The CFI’s Business Freedom Checking account is also great for nonprofits because it has no monthly fees, no minimum balance, and is automatically linked to Autobooks. Nonprofits can open an account for \$100 and are provided a monthly allowance of 250 combined items, which includes checks paid, deposits, online bill payments, and electronic debits and credits. Additional transactions are 40 cents each. Nonprofits can deposit \$10K in cash before being charged 15 cents per \$100.

Axos Bank in San Diego, California. The CFI offers a Nonprofit Money Market account, with competitive interest rates; no monthly maintenance fees when nonprofits maintain a minimum average daily balance of \$2.5K; free image statements, online banking and mobile banking with remote deposit; and a dedicated relationship manager.

If you want to court nonprofits as customers, consider these best practices: create specialized deposit products and customized loan terms to meet nonprofit needs, get involved in the local nonprofit community and network with regional nonprofit coalitions, conduct due diligence on potential nonprofit customers to thoroughly understand their organizational structures, and make sure you have enough dedicated banking relationship managers and other resources to effectively provide financial guidance to nonprofits as needed.

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ECONOMY & RATES

Rates As Of: 01/25/2024 05:35AM (GMT-0800)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.44	0.04	0.04
6M	5.22	-0.04	-0.04
1Y	4.80	0.03	0.03
2Y	4.36	0.11	0.11
5Y	4.05	0.21	0.21
10Y	4.15	0.27	0.27
30Y	4.37	0.34	0.34
FF Market	FF Disc	IORR	

5.33	5.50	5.40
SOFR	Prime	QBER
5.31	8.50	5.31

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