The Third Resource

A Manual on Fully Secured Borrowing

For Nonprofit Arts Organizations

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The Third Resource, Fully Secured Borrowing for Nonprofit art organizations

**Executive Summary:**

Nonprofit art organizations facing the crisis created by current circumstances need access to fully secured borrowing—the third resource—to supplement their other resources. The first resource is earned revenue through sales and commissions. The second resource is gifts and grants. This manual explains what fully secured borrowing is, why it is so valuable to nonprofit art organizations, and how to obtain it.

Fully secured borrowing is a loan from a local bank that has been matched dollar for

dollar with funds placed at the bank by supporters of the nonprofit art organizations. The collateral that the supporters—creditholders—provide is aggregated by the nonprofit arts organization and used to purchase a Certificate of Deposit. These funds are pledged by the creditholder to the bank as collateral. With the collateral in hand and with a cash flow budget and cash flow projections to demonstrate repayment options, banks will lend to nonprofit art organizations. This even includes nonprofit art organizations with no credit history.

This manual explains the creditholder concept in detail. It provides sample solicitation

letters, a question and answer section, forms to be filled out by creditholders, and a sample

contract between the nonprofit art organizations and the individual creditholders. Since fully secured borrowing is an accepted practice in the banking world, the bank will provide the

necessary documents to set up the loan.

The nonprofit art organizations using fully secured borrowing will find that the process is fast,

relatively easy, and remarkably effective in smoothing out cash flow, or addressing

emergency situations with term loans.

**The Third Resource**

Dire Straits. Bad times. Nonprofit art organizations need to solicit gifts and apply for grants. Nonprofit art organizations that can, need to earn as much as possible. But remember that all nonprofit art organizations have access to the third resource. Namely, fully secured borrowing from a local bank. While there is considerable interest in various types of loans, including from the Small Business Administration (SBA), it is vital to carefully question whether these types of loans are appropriate or timely enough to meet the needs of nonprofit art organizations. In this manual, we will demonstrate how to obtain fully secured credit, loans which are

particularly well suited to nonprofit art organizations in the midst of the Covid 19 crisis.

Fully secured borrowing is a loan from a bank that has been matched dollar for dollar

with creditholders’ assets. The major advantages of this type of loan are:

• It puts control in the hands of the nonprofit art organizations, not the lender.

• It is universally available from local banks.

• It is fast, since most the bureaucratic authorizations are missing.

• It allows supporters to help in a significant way in addition to their donations.

• It is a long-term solution, since established revolving credit can be used over and over.

*Why Borrow?*

Nonprofit art organizations need fully secured borrowing as the third resource to deal with the terrible circumstances posed by the new attacks coming from the current administration. Here are the reasons why:

• The first resource for many nonprofit art organizations is earned revenue. Performances, gallery shows, festivals, film venues and concerts, are now closed down or severely limited. Earnings are way down or approaching zero. With less earned income, nonprofit art organizations need an alternative.

• The second resource for some nonprofit art organizations is gifts and grants. Nonprofit art organizations need to continue to urge funders to be generous, but these pleas for help must compete with urgent needs in other sectors of the economy. It is likely that grants this year will not equal the amounts needed by nonprofit art organizations. These are unprecedented times and standard assumptions about income may not hold.

• The third resource is fully secured borrowing. This is a different form of borrowing than

most people are used to, but it has been tested over many decades and proven to be

remarkably useful.

However, unlike gifts and grants or earned income, the borrowed dollar comes with two

qualifications: appropriate collateral, which is where the supporters we call creditholders

come in, and evidence through the use of cash flow budgets and future projections that

the nonprofit art organizations can pay back the loan.

Collateral is often difficult for nonprofit art organizations. Many nonprofit art organizations lack the stuff that bankers want. So, we developed the concept of creditholders. These are people who

normally attend or support your artwork. Creditholders "park" some funds in an account that

you create. When enough dollars have been collected to buy a jumbo certificate of deposit at your bank, these funds can be used as a liquid asset to form the collateral that triggers your borrowing.

We will provide you with letters to potential creditholders. We will supply the forms

needed to engage them, and the arrangements that will allow them to pledge their funds

on your behalf. This process is different from a donation. Creditholders are people who support your work, while keeping their money for themselves. They do allow you to gain access to the fully secured borrowing that you need to smooth out your cash flow or to respond to a serious emergency, like the present moment.

*How does my bank understand my capacity to repay the money?*

If you think about it, bankers are like the folks around the corner that rent tools. Both

charge you fees, both pay special attention to time, and both will hound you if you don't

bring back their item on time. Bankers rent money. To do this, they offer a variety of

products designed to balance their risk with their financial rewards. At best, it is a

subjective business, and it is made more so in fashioning loans to individuals

A multiple-year cash flow budget and some scenarios about the future will be a

considerable help to the banker and to you. The cost of borrowing is clearly enumerated,

so that the banker can see the impact of borrowed funds on your artwork. The requirements for repaying debt service and the time frame within which all this activity is taking place is included in your multiple year cash flow budget.

To start, you need a cash flow budget, not the usual annualized summary budget. The

annualized summary budget has one column for income and expense over a year. The

bottom line is a single number. This may be fine for a foundation or a donor, but your

banker must see the relationship between money and time that characterizes your

artwork

**An Annualized Summary Budget Illustrated:**

Income

1. Grants 17,000

2. Gifts 1,000

3. Earned Revenue 73,000

Total Income 91,000

Expenses

4. Salaries 20,000

5. Fringe Benefits 4,600

6. Part-Time Wages 6,000

7. Personal Income 33,900

8. Rent 15,000

9. Utilities 4,000

10.Legal and Accounting 1,500

11. Supplies 1,000

12. Printing and Promotion 5,000

Total Expenses 91,000

Balance 0

Notice that your eye runs rapidly down the column to the bottom-line, which in this case is an intentional – through rare – zero. Because it is a convention, you may not notice that all the numbers are a summary of the entire year, which can leave you clueless about what happened on a daily, weekly, monthly, or even quarterly basis. This budget can indicate whether you have money or don’t, but it does not allow you to see the relationship between money and time. This is the essence of cash flow, which your banker needs to see. The banker is most interested is how money ebbs and flows through your hands in relation to time.

*How do I quickly cobble together a cash flow budget?*

Using a monthly income and expense format you will wind up with a twelve-column page, plus a column to summarize all the numbers. This enables you and your banker to actually see your on-going relationship to money. You can do this on an item-by-item basis, but in this case, for example, on a monthly basis. You or your bookkeeper, if you have one, can simply add up all the cash only items (no income that is promised, but not in your bank account, and no expenses that have not actually gone out the door). Or, you can use a three-line budget, to quickly reflect your cash flow. In this budget you sum all your income and expense by month. Place these numbers in your twelve-column format and add or subtract the difference between income and expense for each month.

This simple procedure will enable you to move beyond the "snapshot" that is the

annualized summary budget. You will have a moving picture of income and expense by month. This will prove to be much more valuable for you and for your banker.

**Three-Line Cash Flow Budget Illustrated**

 **Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Total**

**Income 30 32 38 45 50 40 50 25 20 35 40 45 430**

**Expense 41 40 35 32 30 35 40 45 42 35 30 25 430**

**Running**

**Total -11 -19 -16 -3 17 22 12 -8 -30 -30 -20 0 0**

**Note: All figures are in thousands.**

Purely for illustrative purposes, we started both budgets with zero dollars in the bank and

ended the same way. While the annualized summary budget provides a sense of your overall

solvency, it does not provide much information about your operations and its relationship to time. In contrast, even this simple summary cash flow budget allows you and your banker to chart out the flow of funds on a monthly basis.

You might notice that after the first month there are three months with negative balances.

and five of the last months of the year also end with negative numbers. Seems pretty grim,

but then you see that this nonprofit art organizations earns money in May and June and usually finishes close to break even in December. These figures will show your banker when you might

be able to use fully secured borrowing to smooth out your cash flow. Often it is

time rather than money that is at the heart of fiscal woes. And this three-line budget

illustrates time in relation to money for your artwork.

To assist your banker, it will be most helpful if you include footnotes also with your cash

flow budget. By sharing the details of your work in relation to time you can demonstrate how your business works, so a few notes will serve you well.

Here are the footnotes that are included in the cash flow budget we presented earlier for our hypothetical nonprofit art organizations.

Footnotes:

1. Grants. The total amount of grants obtained this year is $17,000. Of this amount,

$10,000 has been secured as a commission for a sculpture from the City of Seattle. Two local foundations have supplied $3,000. That left $4000 which proposals to the State Arts Agency and three corporations were funded.

2. Gifts received each year come from patrons and friends who have purchased work in the past. These gifts occur on a regular basis each year.

3. Earned Revenue is largely from sales brokered by our galleries. At venues throughout Europe and with the help of part time technical workers we construct the pieces on site. Once the 60% percent commission that our artist take is deducted all figures are net. All of travel and living expenses during the summer are paid for by us..

4. Salaries are provided for 2 members of our staff who assist in design and development of artwork. During the months that our artists are on the road in Europe, these staff members work with other nonprofit art organizations who are colleagues.

5. Fringe Benefits are calculated at 23% of base salary. They include our health plan

through United Health, the pension plan we offer through Cosmopolitan Life, and the

portion of Social Security we pay for these employees.

6. Part-time Wages are calculated based on the scale of effort needed to assemble work on site. While this is obviously subject to variation, our experience over the years makes us confident that this figure is close to our final costs.

7. Our income is derived directly from sales of art work. It varies from month to month and is completely separate from the income obtained for grants, gifts, and donations. Those funds roughly $18 to $20 thousand per year provide the working capital that supports the development of our marketing efforts.

8. Rent was budgeted for 12 months this year. Our gallery’s landlord is an old college roommate and we have agreed that rent will be held at this level for three years. After that period, increases subject to inflation are anticipated.

9. Utilities have also been budgeted on a 12-month basis.

10. Legal and Accounting services were slightly higher than usual this year. We summoned a review by our accountant. Legal fees are normally for contract review with our artists.

11. Supplies have always been a minor expense. The supplies we use in the design and development phase of our marketing and development work.

 12. Printing and promotion are a vital expense item used for marketing efforts. In the past, this promotional effort has paid off.

This combination of this actual cash flow budget and a few well-chosen footnotes will clarify

many of the questions your banker may have about your enterprise. So now you have collateral and a cash flow budget, what more is needed?

One more step, and it’s easy. You are planning to give the banker a dollar for every dollar

you borrow, so you have rock solid collateral. You have a cash flow budget, so the

banker and you can watch the movie of how income and expense dance their way across

your year. Now, all you need is a clear sense of what the future might bring.

Absent a crystal ball, which curiously enough none of us has, otherwise we would spend

our time at the track or the lottery office, instead of trying to raise or earn money, we need

to imagine a picture of a couple of futures.

This is done by using your cash flow budget to project how the next one, two, three, four,

five, or more years might look if you did what you expect to do. These scenarios are not an accurate forecast. Instead they are your best guess for how things might work out. And, having two or three scenarios makes sense. You probably have a sense of how things work for you during normal times. But these are not normal times. Try to imagine how different assumptions about the future "could" play out. In a sense, the scenarios that you create are a form of a cash flow-based business plan.

For example, in one scenario, if you imagine your expenses for the coming years will

continue to rise by 8%, but your income is likely to only move up 2%, then you may need

a line of credit to smooth out your cash flow during those months when expenses exceed

income. If you are convinced that your future is viable and this unfortunate fiscal state may be going on for a number of months, you need to talk to your banker about a term loan for say three-to-five years. The loan will enable you to hoist yourself back up to solvency. Some foundation officials may not like to hear this, but your banker certainly wants and needs to see both the good news and the bad news. This is because bankers have different tools to rent for different jobs.

In another scenario, the current crisis has passed. Slowly sales return and your earned revenue kicks in again. Now you can slowly and gracefully can pay off your loan. Just remember, bankers pay attention to the quality of your collateral, and the downside risk that their loan will not be repaid. You satisfy both of those concerns with your creditholders, so the borrowing we are talking about should be pretty straight forward. It should be uncomplicated beyond the normal paperwork that is a misery we all must endure. What you will be avoiding is all the time, energy, stipulations, and restrictions that government loans require prior to authorization.

*What is a creditholder?*

• A supporter of your artwork who “parks” funds with your bank.

• All the funds are aggregated to purchase one certificate of deposit.

• The creditholder earns interest income on their funds.

• These liquid assets are still owned by the individual, unlike a donation, and therefore

there is no tax credit. The funds in the certificate of deposit are then pledged as collateral

to the bank.

• The collateral enables you to fully secure your borrowing with the bank, for a

line of credit, or a term loan to cure a short-term deficit, or to use for a new venture.

• Given the liquidity of the pledged assets, banks typically lend at two to three percent

above the interest paid on the certificates of deposit.

• More importantly, the creditholder’s collateral enables you to obtain the

credit that you need, when you need it.

• The creditholder gets his or her funds back when the CD matures.

There is some risk of losing the collateral if you were to default on your obligations. Therefore, you must convince all creditholders that they should put up no more assets than they could afford to lose. Institutional creditholder programs across the nation have no history of default, although it will happen sooner or later. So, if you were to default, the creditholder’s collateral would be seized by the bank.

Recently we have been asking State and Local Arts Agencies and local foundations to consider proving a guarantee, called “default insurance” ore as it is sometimes called “credit enhancement.” In this instance, the funding organization sets aside a portion of its annual budget to act as insurance to back up nonprofit art organizations who solicit creditholders. The creditholders are protected for a portion or in some cases all of their financial participation. It might make sense for you to make the case for this type of insurance with your local funding auspices.

*What do all the parties involved have to gain?*

• Creditholders gain an opportunity to help an nonprofit art organizations, at no cost to themselves.

• The bank gains the collateral that it needs to justify lending.

• The nonprofit art organization gains a stable resource that can be used to mobilize credit whenever it can be shown that there is potential revenue will repay the loan.

*Who are creditholders?*

Creditholders are friends, family, audience members, and supporters. Basically, they are

people who believe in your work and want to help you out. Creditholders "park" some funds with you as a means to insure your survival. In our experience, over time, particularly if you share the good news and the bad news with them, they will become your most ardent supporters.

*How do we get them?*

Obviously, you have to ask. Here are some examples of solicitation e-mail messages

that you can share after you put your own information in the form. Of course, you can write your own letter.

**Sample Cover Letter #1 to Prospective Creditholders**

Dear Friend:

These are dire times for us all and they are particularly difficult for nonprofit art organizations.

My \_\_\_\_\_\_\_\_\_\_\_\_\_\_ (performances, concerts, shows, festival, fund

raisers, bake sales, auctions, et.al.) are being cancelled and the revenues we need to

continue to support our artwork have evaporate.

Luckily there are people who refuse to see our artwork disappear. To assist them we

have created a creditholder program. This allows friends and supporters to place cash in a Certificate of Deposit with my bank. These funds will secure the credit that we need to borrow. These funds are not a donation, rather we are asking folks to "park" some funds with our bank so that we can safely borrow.

Please read the description of the creditholder program that accompanies this letter and

consider if you can help us weather this terrible crisis.

Sincerely,

XXXX

**Sample Cover Letter #2 to Prospective Creditholders**

Dear Friends,

Until the present moment, with the terrible threat posed by the current circumstance, we were on the road to our best year in recent history. Suddenly we have been tossed into the midst of a terrible, fiscal crisis. As you know, we wish to continue to make and support art and we are asking you to help.

We understand there are many worthwhile causes out there that compete for your funds.

So, we have come up with a different approach to our financial situation. We have developed a special program with our bank. (Fill in the name of the financial

institution) is offering a FDIC insured certificate of deposit with a three-year term. This

certificate is competitive with other financial institutions in our area. (Please see the

specific details on the question and answer section of this document)

This certificate of deposit, funded with funds aggregated from you and others, will act as

our guarantee for a ($ YYYYYY) line of credit) or a ($ term loan of XXXX). Your

help will provide the collateral that will enable us to borrow from the bank. In this way, we

will be provided with the cash flow stability necessary to continue our work. And you

will have the satisfaction of knowing that your funds are helping us to manage in these

difficult times.

(Five) friends have already signed up for this creditholder program. We need a few more supporters to make our financial stability a reality. Won't you please consider this? We will give you a call in the coming week to discuss this program and to answer your questions. We hope that we can count on

your support.

Sincerely,

ZYX

*How can we use this type of letter?*

You can modify these letters, but always emphasize the idea that there are specific details

associated with the creditholder program that you will be providing. Here are some

examples of the specific information used in the past to explain creditholder programs:

**Questions and Answers on how the Creditholder Program works.**

We are forming a creditholder group for the purpose of collateralizing a revolving line of credit (or a term loan) to meet our financial needs. The collateral will be a jumbo certificate of deposit owned collectively by the individual creditholders. The CD will fully secure our borrowing.

*Why should I consider becoming a creditholder?*

With a secured line of credit, we will be able to meet our financial obligations in a timely

Manner. With the terrible circumstances created by the current administration we may need a

term loan to get through all this and the banker and we have explored this possibility.

*What will the amount of the secured credit be?*

Although this present situation is difficult to chart, we are committed to maintaining tight

fiscal controls. At the same time, we will be attempting, wherever possible, to pay our

vendors on time. They need the income as badly as we do. At this point, it seems clear

that a line of credit of ($XXX) should be sufficient. If we need to take out a term loan for three-to-five years, the amount should be in the neighborhood of ($YYYYY). This loan, at a reasonable rate of interest, will buy us the time we need to deal with present matters, and slowly and gracefully repay in the future.

*Is there a minimum amount that required from us?*

No, we will pull together all the funds that the creditholders provide and purchase a FDIC

insured certificate of deposit. Each creditholder will receive a contract that spells out all

the terms and conditions associated with this transaction. We will be the sole depositor and we will be responsible for its repayment. The bank and we will account for and track each individual's funds and the interest they accrue.

*What is the length of the CD?*

At this time, we anticipate purchasing a Three-Year Certificate of Deposit. If you chose

to participate, you should plan on this three-year period being the time your

money is obligated.

The Certificate of Deposit will be pledged to the Bank as collateral. This will allow us to borrow. These liquid assets will continue to be owned by you but are obligated to be used as collateral for a period of three years.

It is our plan that each creditholder will get his or her funds back when the Three-Year Certificate of Deposit matures. During this three-year period, we will be actively seeking more creditholders for the next round. This recruitment process will continue through the life of the creditholder program. Since, prior withdrawal carries a penalty, we plan to over-subscribe the creditholder program. This will be done by setting up a separate savings account. Our goal is to oversubscribe the amount of the Certificate of Deposit by at least XXX %. If an individual creditholder has a serious emergency, he or she may be able to withdraw a portion or all of their funds without penalty from this savings account.

*Who gets the interest on my CD?*

Creditholders earn interest income on their funds. The Bank and we will monitor these accounts on behalf of each individual participant.

What is the value of this program to me?

Given the liquidity of the pledged assets, my bank will lend at two to three points above

the interest paid on the certificates of deposit. Importantly, the creditholder’s

collateral enables me to obtain the credit that we now need to survive.

*What risk is there to me as a creditholder?*

As in all matters financial there is some risk of losing the collateral if we were to default

on all our obligations. Therefore, all creditholders should put up no more assets than they

could afford to lose.

Although it has not happened in over 40 years of experience with institutional creditholder programs across the nation, if we were to default, the creditholder's collateral would be seized by

the bank. Potential creditholders should consult with their financial and legal

advisers prior to making this commitment.

**A Sample Form for Enrolling Creditholders**

The XXXX (fill in the name) Creditholder Program

Please fill out the appropriate sections below and return to me. Upon receipt of your

check, we will send you a deposit receipt and documents that assign your funds to a special

bank account specifically for creditholders. All processing can be handled through the

mail, overnight courier, or in person.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name

Social Security Number

Address

Telephone

E-Mail Address

Referred by

Cash (which will be aggregated and used to purchase a Jumbo Certificate of Deposit)

Amount $

Number of Years, (minimum 1-2-3 years)

Please attach your check and a copy of your driver's license or other picture ID to this

form. The ID is required by the bank. (Check this out before asking for ID, different states have different requirements about this matter)

*How do I formalize an agreement between the creditholder and myself?*

The following Sample Creditholder Agreement represents the “contract” between you

and the individuals who become Creditholders. It spells out the relevant terms and

conditions associated with the process. As you might guess, this legalistic prose was not crafted by us. Different States have different rules. You might want to check with an attorney to

ensure that the wording conforms to your location’s requirements

**A Sample Creditholder Agreement**

THIS CREDITHOLDER AGREEMENT is made as of \_\_\_\_\_\_\_\_\_\_\_(Date), by and between

(Your Name) at (your state/Commonwealth/Territory) and \_\_\_\_\_\_\_\_\_\_\_\_ (Creditholder) for the purposes of setting forth the terms and conditions under which the Creditholder agrees to extend a security interest in certain collateral hereinafter described for the benefit of \_\_\_\_\_\_\_\_\_\_\_\_\_ (Your Name).

(Your Name) is an nonprofit art organizations working in (Your City) \_\_\_\_\_\_\_. In the (State/Commonwealth).

(Your Name) desires to obtain and maintain a (revolving secured line of credit or a

term loan or a combination of both credit instruments) with (the name of your financial

Institution) for the purpose of meeting working capital requirements of (Your Name) as such needs arise in the ordinary course of business. (Your Name) has agreed with the bank to secure this credit with a first security interest in a Certificate of Deposit provided by Creditholders and others (together referred to as the “Creditholder Group”) pursuant to the terms as set forth in the “Security Agreement for Savings Accounts, Share Accounts, Time Certificates of Deposit and Time Deposits,” attached hereto as Exhibit A (Exhibit A will be provided by your financial institution) and hereinafter referred to as the “Security Agreement.”

The Creditholder, in support of (Your Name), is willing to provide such a security interest in an aggregated Certificate of Deposit purchased by (Your Name). Funds from Creditholders will be maintained in a special purpose savings account set up by (Your Name). Once enough funds have been collected from the Creditholder Group, (Your Name) will purchase a single Certificate of Deposit for the expressed purpose of providing collateral to enable borrowing to meet the financial needs of (Your Name).

THEREFORE, in consideration of the of the mutual benefits to be received by (Your

Name) and the Creditholder, the receipt and sufficiency of which is hereby acknowledged, (Your Name) and the Creditholder agree as follows:

1. Collateral: The Creditholder has or will provide funds which will be aggregated

with the funds from other Creditholders to purchase one large Certificate of Deposit at the Bank. The amount of the Certificate of Deposit, identified as CD#\_\_\_\_\_\_\_\_\_, maturing on \_\_\_\_\_\_\_\_\_\_\_, will provide collateral for borrowing from (Your Name.).

2. Certificate of Deposit: The Certificate of Deposit and a proportional share of the

earnings thereon are at all times the property of the Creditholder Group, subject to

the terms of the Certificate of Deposit and to the Security Agreement. The Creditholder will look to (Your Name) in concert with the Bank for payment of interest on the Certificate of Deposit, so long as the Bank has not applied all or any portion of the Collateral to the obligation of (Your Name).

3. Protection of Collateral: (Your Name) acknowledges the trust the Creditholder is placing in (Your Name) to provide the Certificate of Deposit as Collateral, (Your Name) therefore agrees:

• (Your Name) will at all times abide by the terms and conditions

of the promissory note and any other documents required by the Bank

to obtain and maintain the secured (line of credit or term loan), including the obligation for payment of interest and principal in a timely manner and the provision of information;

• (Your Name) will strive to always maintain no less than 100 percent of the lesser of (i) the maximum loan balance outstanding or (ii) the approved (line of credit or term loan) in the collateralized Certificate of Deposit with the Bank. To accomplish this, (Your

Name) will collect funds held in a special savings account equal to or in excess of (XXX) percent of the value of the Certificate of Deposit. These funds will allow individual Creditholders with emergency needs to withdraw a portion or all of their funds. Thus, the collateralized Certificate of Deposit will be maintained to maturity without threat of

early withdrawal penalties.

• (Your Name) will provide the Creditholder with regular and ongoing information as to the status of the secured (line of credit or term loan) and (Your Name’s) financial position. This

information, as described below, will be provided quarterly to the Creditholder on the Secured Line of Credit or Term Loan information, including loan balance outstanding under the secured credit, total collateral securing the loan balance, and anticipated repayment date of the outstanding loan balance.

* (Your Name’s) Financial Information, including interim financial statements as reflected in (Your Name) cash flow budget and projections.
* In the event that the secured (line of credit or term loan) goes into default for any reason (Your Name) will notify the Creditholder within five business days of receiving such notification of default.

4. Withdrawal of Collateral: The Creditholder agrees that it will notify (Your Name) of any emergency that the Creditholder may have that requires the withdrawal of their participating funds.

5. Collateral Applied: If the Bank applies all or any portion of the Collateral to

payment of (Your Name’s) obligations under the (secured line of credit or

term loan) (Your Name agrees:

• (Your Name) will immediately notify the Creditholder as to the amount of the Collateral provided by the Creditholder that has been applied to (Your Name’s) obligation;

• (Your Name) will pay periodic interest to the Creditholder as to the amount of the

Collateral provided by the creditholder that has been applied to (Your Name) obligation at the same rate and at the same times as provided for under the Certificate of Deposit;

• It will repay to the Creditholder the sums applied by the bank on the maturity date of the Certificate of Deposit.

6. Notices: Any notice or other communication required by or under the terms of the

Creditholder Agreement will be in writing, addressed to the appropriate party, and

delivered personally or sent by U.S. mail as follows

(Your Name)

P.O. Box XXXXX

(your city State & Zip Code)

(Creditholder Name and Address)

7. Binding Effect: The rights and obligations of the Creditholder under this

Agreement shall inure to and bind the heirs, executors, administrators, successors,

and assigns of the Creditholder. The signature of the Creditholder represents that

the Creditholder has had the Creditholder’s consul review this Agreement and

the Security Agreement or has chosen to waive such opportunity.

When executed (Your Name) and the Creditholder, this Agreement is

effective as of the date first above written.

(Our Name) Creditholder

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

By \_\_\_\_\_\_\_\_\_\_\_\_\_\_ By \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Key points in setting up a creditholder group:**

• You need to understand the importance of cash flow and grasp the creditholder concept.

• The arrangements with the bank need to be set up before anyone approaches

potential creditholders.

• The communication from you to the creditholders needs to be clear, reasoned, and straightforward. It also needs to be backed up with answers to commonly raised questions.

•The agreement between you and the creditholder needs to be formal; it must be articulated in correct legal terminology, including the occasionally obscure phrase of the type that so often blights the linguistic landscape when lawyers draft contracts.

• Individual creditholders who wish to pledge stocks will require a separate and

different agreement. (Check out our book *Cash Flow Strategies: Innovation in*

 *Financial Management*, Jossey-Bass, 2009 for this and other forms and

documents needed in various special cases.

• Finally, we have not included the (pledge) hypothecation agreement between the

bank and the creditholder, even though each creditholder will be asked to sign

one. This agreement is standard, and the bank’s staff gets paid to provide

this information.

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In this brief manual we have attempted to share with you a sense of how and why fully

secured borrowing is highly appropriate for nonprofit art organizations. We have offered you some documents that you can modify and use to form a creditholder group and approach your local bank with confidence. After writing and publishing five books on this topic, in light of the current situation we have struggled to compress a great deal of information into a quick and easy guide for you. Much more information is available from our books: *The Cash Flow Solution: A Board Member’s Guide to* *Financial Success,* Jossey-Bass, 2007 and *Cash Flow Strategies: Innovation in Financial Management,* Jossey-Bass, 2008. These books contain additional information, including more forms and advanced materials.

If you have questions, please contact us through our web site at

www.linzerconsulting.com