

Fundraising with a Charitable Bond

Introduction

Charitable Bonds are an innovative new tool for the fundraiser's kit.

Traditionally, fundraising has relied mainly on asking people to give money away. Now, individuals, companies and trusts can also support social causes by investing money securely in a fixed-term Bond. By bringing capital together, Charitable Bonds can generate immediate funds for charity and ensure that investors get all their money back after five years.

About Citylife

Citylife is a national charitable organisation supporting causes that give people a better future. It is a society registered with the Financial Services Authority (FSA), recognised by HM Revenue and Customs as a charity and governed by independent trustees. As such Citylife is permitted to offer and issue certain bonds to the public in the United Kingdom based on the exemption under the Financial Services and Markets Act (section 85(5) and Schedule 11A).

Citylife started in 1999 with a mission to bring local communities together to tackle issues of poverty and unemployment. We wanted to find new ways to raise finance for local projects, so we developed a unique Bond mechanism as an innovative tool to enable individuals and companies to use their savings and capital for the benefit of others.

In the past ten years, our Community Bonds gained an excellent track record, raising over £10 million of investment and leveraging a further £25 million in match funding to support local initiatives in London, Newcastle, Sheffield and Wales. Over 1,300 bonds were bought, including a number of six-figure investments from companies like Diageo, Greggs, Nomura and Sage.

As a result of this success, Citylife is now offering Charitable Bonds as a unique and innovative way for charities and social initiatives to raise additional funds.

What is a bond?

A bond is a financial mechanism for investing money in an organisation, like a bank or a company, for a fixed period of time. It's a contract in which the investor effectively agrees to lend a certain amount of money, and the organisation promises to pay it back ('redeem' it) on certain terms at a later date ('maturity').

Citylife offers bonds at fixed values, so if you buy a £1,000 bond from Citylife, you are buying a promise that Citylife will pay you £1,000 in five years' time.

Certain types of organisations, like Citylife, can offer a set of bonds (with a lower case 'b') for a fixed period under a single set of terms and conditions. This offer is what we call a Bond (with a capital 'B'). Usually, an organisation offers Bonds as a way of raising finance for itself. Citylife offers Charitable Bonds as a way of raising finance for social causes.

Why fundraise with a Bond?

With its unique money-back offer, a Charitable Bond enables supporters to give to charity even if they don't feel able to make a donation, or to give more above what they can afford to donate.

A Bond can give focus to specific appeals and unlock more money than could be raised through donations alone. A series of Bonds can also provide supporters with an ongoing, additional way to give.

Some of the benefits of fundraising with a Bond are:

- access a new income stream
- an attractive proposition to individuals and corporate investors
- a single, upfront tax-exempt grant that is unrestricted
- build long-term relationships with donors
- investment may be rolled over into another Bond or donated at maturity

Overview of how Bonds work

Charitable Bonds work by providing a combination of grant funding and capital loans (see diagram below).

With the approval of its trustees, Citylife can create an offer of bonds on behalf of one or more charities. The bonds are available to purchase for a fixed period, usually three to six months, and may be bought by organisations and individuals in return for a bond certificate.

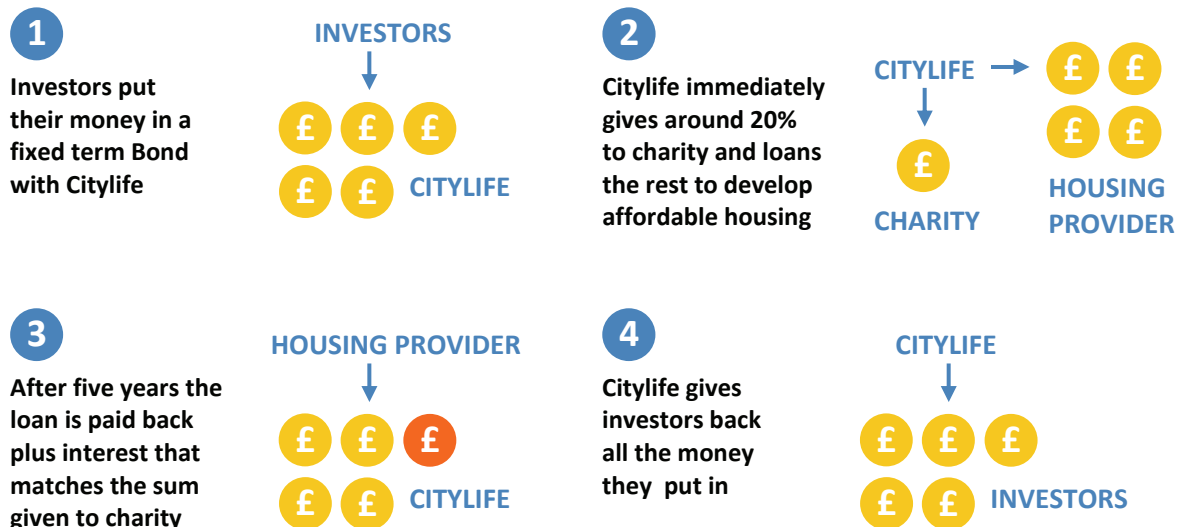
When the offer period closes, around 80%* of the total raised is loaned by Citylife at a commercial rate to Registered Social Landlords (RSLs). These are not-for-profit housing providers regulated by the Tenant Services Authority, who use the loans to create urgently needed affordable housing for local communities and key workers.

The remaining 20% or so after costs is immediately given as a tax exempt grant to the charity (or charities).

After five years, the housing providers repay their loans with interest – taking the fund to its original 100% level – and bondholders are repaid in full.

So on an investment of £1000 for example, around £200 will go directly to charity while the rest will work to create affordable places to live. In effect, what investors give is the interest they might have received over five years had they put their money in a bank or invested it elsewhere.

* Exact figure depends on commercial interest rates at time of issuing the loan



Example

A Bond raises £1 million. Based on a commercial rate agreed in advance, Citylife will lend an exact proportion of this to an RSL so that the sum repaid plus compound interest after five years is exactly £1 million. For example, at a rate of 5% per annum the proportion of the investment loaned would be £783,526.

This leaves a balance of £216,473 from which the costs of issuing the Bond are deducted**, and the remainder is given as an unrestricted tax-exempt grant to charity.

Five years later, the RSL pays back Citylife the money it borrowed plus £216,473 in interest. This totals £1 million, which is then used to pay back bondholders in full.

** 2% of the first £1 million raised by the Bond and 0.5% thereafter

Other models for Bonds

In some cases it is possible to adapt the standard Charitable Bond model to meet the needs of particular organisations. For example, some organisations may want to work with a housing provider local to them, or borrow part of the capital from the Bond. In these cases we would be happy to discuss options with you and talk through any additional cost or legal implications.

How much money Bonds can raise

The proportion of the total raised by a Charitable Bond that is given as a charitable grant depends on the commercial interest rate negotiated with the Registered Social Landlord (RSL). At present this is around 5% but may go up or down between the point of starting the process of offering a Bond and the point of making the loan.

Over the five years of the Bond term, an annual interest rate of 5% is equivalent to a compound rate of 27.6%. Therefore, if the total amount invested in a Bond is £1 million, Citylife will issue a loan of £783,526 so that the amount paid back by the RSL including interest is exactly £1 million. This leaves a balance of £216,473.

Optional bank guarantee

As the beneficiary of the Bond you have the option of whether you want Citylife to procure a bank guarantee on the loan made to the RSL as a further level of protection for investors. The cost of this guarantee is around 3.75% of the Bond total (depending on the commercial interest rate of the loan and the exact charge by the bank at the time) and is deducted from the grant you would receive.

You therefore need to decide what is right for you. Some charities want a guarantee in order to give maximum protection against risk, while others want to maximise the grant they receive. Alternatively you can offer investors the option of a guarantee – resulting in one loan with a guarantee and one without – and invite them to offset the cost with an additional donation.

Citylife cannot give financial advice on whether or not you should pay for a guarantee, although we believe the risk of default by the RSL, which would result in the guarantee being called upon to repay the loan, is low. See the risk section below for more details.

Citylife’s costs

Of the total invested, Citylife’s standard costs for issuing the Bond are 2% on the first £1 million and 0.5% thereafter, or a minimum of £10,000, whichever is the greater.

This cost covers:

- approval of a pledge document
- legal authorisation of the Offer Document for the Bond
- drawing up legal paperwork associated with issuing the Bond and making the loan to the RSL
- payment of fees to solicitors and the Bond Registrar and Trustee over five years
- administration involved in processing investments
- support for developing the Bond by phone or email
- carrying debt liability to investors

It does not include any marketing costs such as design and print of communications materials, which you will need to meet yourself.

We may also be able to attend meetings and events or provide other forms of support for your development and marketing of the Bond at additional cost.

Summary

Based on a commercial rate of 5%:

Total invested*	Sum loaned	Citylife’s basic costs	Value of grant	Optional guarantee**
£1 million	£783,526	£20,000	£196,474	£37,500
£2 million	£1,567,052	£25,000	£407,948	£75,000
£3 million	£2,350,578	£30,000	£619,422	£112,500

* Investments of £1-3 million given as illustration, standard upper limit is £10 million which may be extended by negotiation

** Approximate cost, would be deducted from grant.

Attractions for individual investors

A Charitable Bond provides individuals with an additional way to give.

Ordinary donations to charity tend to be made from people's disposable income – the amount of money they feel is left of their earnings after deducting the sum they think they need to save or spend on essentials. That source of charitable giving often becomes squeezed in tough economic times when all three points can come under pressure – income may drop, expenditure may increase and the need to save may be felt more strongly in a less certain economic climate.

With Charitable Bonds, giving isn't limited to disposable income. With the security of knowing they'll get their investment back, a Bond enables individuals to support charity using the money they have already put aside in savings. Instead of letting their money sit in a bank account, they can put their savings to work for the benefit of others.

Bonds can also help to create stronger relationships between investors and the organisations they support. When money is given away, the ownership passes from the individual to the charitable organisation. But with Bonds, investors still feel ownership of their money, and experience has shown that they are therefore often more interested in how it is being used. So the Bond not only helps to provide a new income stream, it also builds new and stronger donor relationships.

Attractions for corporate investors

Charitable Bonds are a highly attractive way for companies to deliver social benefit. These are some of the main attractions:

Corporate social responsibility (CSR)

Supporting a Bond is an effective, high-impact way for companies to demonstrate CSR. It not only generates a high return on investment for social causes, it also creates a more dramatic message about their CSR commitment.

For example, if a company invests £100,000 of capital in a Bond there is arguably an opportunity cost (money that could have been made by investing elsewhere). Let us say this cost is £3,000 a year.

Therefore, whether the company invests £100,000 in a Bond or makes a donation of £3,000 a year, the cost to the company is effectively the same. But the message the company is giving about its support for charity is very different. What's more, the company will be able to show the evidence of its CSR investment for five years from just a single transaction.

Value

By pooling the capital from multiple investors, Citylife is able to on-lend the investment in its Bonds at a commercial margin above the rate of interest available to investors directly. Furthermore, since Citylife is a charity the interest gained is tax free. This means that investing in a Bond is better value for companies than trying to replicate the Bond model by investing capital elsewhere.

No impact on the balance sheet

Bonds purchased by companies are retained as assets. This means by buying a bond companies can use their capital to support social causes without any impact on their bottom line. In the event of changed circumstances the bonds could also be used as collateral against borrowing or transferred to a third party.

Risks associated with Bonds

For the beneficiary

The cause that benefits from a Charitable Bond does not carry any financial risk or liability for any monies owed to investors. The money it receives is simply a charitable grant from Citylife.

For investors

Citylife believes the risks for investors in a Charitable Bond to be low.

The proceeds from a Bond are loaned by Citylife to one or more Registered Social Landlords (RSLs), which are regulated by the Tenant Services Authority (TSA). Part of the role of the TSA is to protect tenants' interests by ensuring that RSLs remain financially viable and settling the affairs of any providers who become insolvent. Citylife only lends to RSLs that it believes to be of suitable credit based upon reports by the TSA and credit ratings by a bank or independent ratings agency.

The loan, and any associated guarantee, is assigned to an independent trustee, which means that even if Citylife were to stop trading, the trustee is in place to receive repayment from the RSL and then to pay monies it receives to bondholders at maturity.

However, like any investment, investing in a Charitable Bond carries a degree of risk and investors are advised to consult their own legal, financial, accounting, tax or other relevant advisor prior to making any investment decision.

In the event a RSL is unable to repay the loan made to it by Citylife when due and the Tenant Services Authority (TSA) is not able to use its powers to settle the affairs of that RSL, investors may not receive repayment in full (or at all).

If in this event a bank guarantee of the relevant RSL loan has been provided or chosen by the investor, the risk of non-repayment is reduced. If the guarantee for the Bond is optional, investors will not obtain the benefit of the security of the guarantee unless they request to receive it when completing an application form for the Bond. There is however a risk that the bank providing the guarantee may in some circumstances be unable to honour its guarantee.

Criteria for being the beneficiary of a Bond

In order for Citylife to consider offering bonds on your behalf you must:

- be a legally constituted organisation, such as a charity or company
- show how you would use the grant from a Bond for social benefit
- demonstrate a track record of providing such services in the past
- provide a clear strategy of how you will raise sufficient investment for a Bond.

Further guidelines on eligibility criteria are given at the end of this document.

How to apply for a Bond

If you are interested in promoting a Charitable Bond as a fundraising tool for your organisation, you will need to complete our application form showing how you meet the criteria listed above. You also need to send us copies of your accounts for the last two years.

We will evaluate your application and consider whether we are able to offer a Bond on your behalf.

Running a Bond

If we give initial approval, we will send you a memorandum of understanding that sets out how we will work together and a guide to developing the Bond.

The next step is to open a members' share account with Citylife with not less than £5,000. This effectively acts as a deposit to enable us to start working with you on developing the Bond. It also gives you, as a member, a say in how Citylife is run. If you wish, you may request for your shares to be redeemed in full when bonds are issued (at the end of the offer period) or net of costs if either party does not wish to proceed to issuing. Full terms and conditions of membership are available on our website.

To start your marketing campaign you will need to conduct a pledging exercise to evaluate the level of interest in a Bond. The Bond guide will help you to create a marketing device to gather pledges, which will need to be authorised by Citylife before it is published.

You can take as long as you want to gather pledges, but you need to have a minimum of £250,000 pledged in order for Citylife to proceed to offering bonds on your behalf.

The offer of bonds must be formally approved by Citylife's trustees who will check that the Bond is financially viable and confirm whether they want to offer bonds on your behalf. Once approved, the Bond can be offered on the basis of an offer document which describes to investors the purpose of the Bond and enables them to apply to purchase a bond.

It is your responsibility to produce the offer document using template material provided by Citylife, but we must obtain legal authorisation of the offer document before it is published.

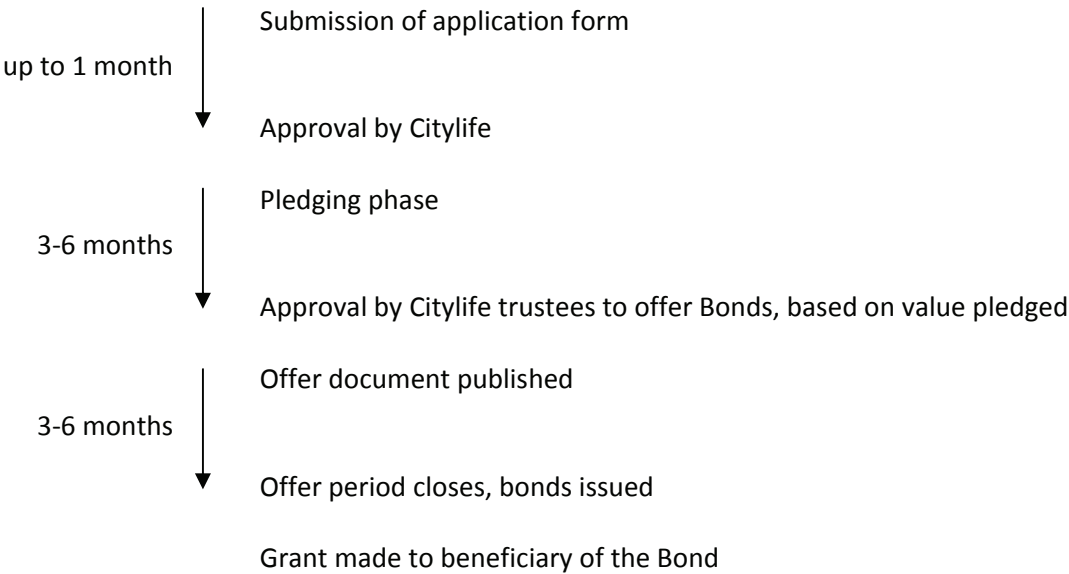
In the offer document you will need to set a date when the 'subscription lists' for the Bond open, and a closing date, usually around three to six months later. Between these two dates you can promote the Bond and invite people to complete an application form and send in their money.

Before the closing date, Citylife's trustees will look at the applications and the total value raised in order to approve the issue of bonds. If the trustees or the beneficiary of the Bond do not wish to proceed for any reason, the bonds will not be issued and money will be returned to investors.

The closing date can be extended if required, but once the Bond has closed there can be no further investments. The grant resulting from the proceeds of the Bond will be sent to you immediately after the Bond closes.

Illustrative timetable

The time between applying to Citylife and receiving a grant can be up to a year, but may be less.



Questions?

If there's anything else you'd like to know, please talk to us. You can call on 01223 323481 or email us at bonds@citylifeltd.org

Glossary of terms

Application

Investors who wish to buy a bond must complete an application form based on the terms of the Offer Document. The bond is officially purchased when the offer period closes, or if for any reason the bonds are not issued, the money is returned to investors. Applicants can change their mind at any point up to the closing date and receive their investment back in full.

Beneficiary

The charity or organisation that receives a grant as a result of money invested in a Bond.

bond

A contract that is bought by an investor from an organisation, in which the organisation promises to repay the value of the bond at a later date on certain terms and conditions.

Bond

The collective term for the offer of bonds under a single set of terms and conditions.

Bondholder

The investor, whether an individual or company, who buys a bond.

Capital

The money invested in a Bond.

Charitable Bond

A type of Bond offered uniquely by Citylife to support social causes.

Closing date

The end of the offer period when bonds may be issued. The date is published in the offer document but may be extended at the discretion of Citylife's trustees.

Commercial rate

The agreed rate of interest that the Registered Social Landlord (RSL) will pay on the loan it borrows from the capital raised by the Bond. The rate is comparable to rates available to RSLs from other lenders, and is calculated by an agreed formula based on a standard government measure.

While it is unlikely there would be significant fluctuation in this calculation, it means the actual interest rate, and therefore the percentage of the Bond fund given to the beneficiary, cannot be specified exactly in advance.

Compound interest

Interest that is calculated on both the original sum and the interest already accumulated. So if £100 is loaned at 5% annual interest, after one year the amount owed would be £105. After two years a further 5% on the £105 is owed, i.e. £110.25.

Therefore if £100 is loaned for five years at an annual rate of 5%, the total amount owing after five years is £128, which is equivalent to 28% interest over five years.

Credit rating

The credit rating of a company is an evaluation from an independent ratings agency that states the risk of lending to that company. It measures the ability and willingness of the company to meet its financial obligations in full and on time. Citylife may use such ratings to determine whether an RSL is of suitable credit before making loans.

Default

In financial terms this means a failure to satisfy the terms of a loan obligation or pay back a loan.

Financial Services Authority (FSA)

The FSA is an independent body that regulates the financial services industry in the UK. Under the Financial Services and Markets Act it has four statutory objectives: maintaining confidence in the financial system; promoting public understanding of the financial system; securing the appropriate degree of protection for consumers; and reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime.

The FSA is also the registering authority for societies which register under the Industrial and Provident Societies Act 1965 (I&P Act 1965).

Financial Services and Markets Act 2000

The Act that currently governs UK financial market regulation, under which Citylife is permitted to offer certain bonds to the public in the UK.

Fixed-term

Citylife's bonds have a fixed term of five years, meaning that investments will be repaid five years after bonds are issued. This period is fixed, meaning that Citylife cannot retain the investment longer than five years, and investors cannot withdraw their money during the period except by negotiation with Citylife.

Guarantee

For some Charitable Bonds a guarantee may be offered or provided on the loan made to the RSL. The guarantee is given by a major financial institution, like a bank, and is effectively an insurance policy against the event that the RSL is unable to repay its loan on time in part or full. Since the risk of default by the RSL is considered low, the guarantor is willing to provide a guarantee, for a fee, to pay back the money itself if required.

Guarantor

The provider of a guarantee.

Industrial and Provident Society

An industrial and provident society (IPS) is an organisation conducting an industry, business or trade, either as a co-operative or for the benefit of the community, and is registered under the Industrial and Provident Societies Act 1965.

Issue

The issue of bonds is the point at which the bonds are officially purchased on the closing date of the offer period. The decision for Citylife to issue bonds must be approved by its trustees, and the offer of bonds does not guarantee that they will be issued.

Maturity

The maturity date is the end of the fixed-term of the bond when money is returned to investors.

Money laundering

Money laundering is the criminal practice of disguising illegally obtained funds so that they seem legal. Citylife has obligations under the Money Laundering regulations, the Proceeds of Crime Act, and The Terrorism Act to report any suspicious or unusual transactions to the authorities. Applicants for a bond on the basis of an offer document issued by Citylife may therefore be required to provide evidence of identity, address or both.

Offer Document

A legally authorised document that sets out the terms and conditions of a Bond and invites investment in the Bond. Applications for a Bond can only be made on the basis of an Offer Document.

Offer period

The period in which investors can apply to purchase a bond on the basis of an offer document. This period can be extended at the discretion of the trustees of Citylife. After the offer period closes, no further investments can be made in a Bond.

Redemption

The act of paying money back to investors.

Registrar

The Registrar of a Bond holds all the records of investors and should be contacted in the event of any change of details. For all Bonds the Registrar will be Wrigleys Solicitors LLP who are authorised and regulated by the Financial Services Authority.

Roll over

At the end of the fixed term of a Bond, bondholders may be offered the opportunity to roll all or part of their investment over into a subsequent Bond.

Registered Social Landlord (RSL)

A not-for-profit housing provider approved and regulated by the Government through the Homes and Communities Agency. RSLs typically support people in need through provision of low-cost rental accommodation and through financial schemes, such as shared ownership, to help those who cannot afford to buy their own homes outright. They may also offer other services such as sheltered housing or at home care.

Subscription lists

A financial term to describe the list of investors applying to buy bonds. The start and end of the offer period may be referred to as the opening and closing of the subscription lists.

Tenant Services Authority (TSA)

The regulator for affordable housing, which was set up as a result of the 2008 Housing and Regeneration Act. Its purpose is to protect the interests and needs of tenants, and part of its role is to monitor the performance of RSLs and ensure that they remain financially viable.

Transfer

Citylife's bonds are transferable, meaning you could sell a bond to someone else and that person would be paid the value of the bond at maturity.

Trustee

The Trustee for a Bond is an independent organisation offering trustee services, which holds the loan made to the RSL under trust. This means that even if Citylife were to stop trading, the trustee is in place to receive repayment from the RSL and then to pay monies it receives to bondholders.

The Trustee for a Bond should not be confused with Citylife's trustees, a board of volunteers who are legally responsible for the overall management and decision-making of the charity.

Yield

The additional money generated by investment in a Bond. With Charitable Bonds the yield is donated to social causes.

Zero-interest

Citylife's Charitable Bonds are generally zero-interest, meaning that investors get back after five years exactly what they put in.

Eligibility criteria for Bonds

Citylife issues Charitable Bonds to raise money for causes that deliver social benefit. The decision to offer bonds is entirely at the discretion of Citylife. The following guidelines outline our investment priorities, but we reserve the right to offer bonds on behalf of causes outside these guidelines or to turn down any application without explanation.

Organisation type

Grants from Charitable Bonds can only be made to legally constituted organisations and not to individuals. You do not necessarily have to be registered as a charity, but must demonstrate how the grant from a Bond would be used for social rather than private benefit.

Aims

Applicants to be the beneficiary of a Bond must demonstrate how they would use the money raised by the Bond for social benefit. The cause must help to give people a better future.

We will give preference to causes that address issues of social and economic exclusion. Examples of this are poverty, unemployment, poor skills, work-limiting illness or disability, family breakdown, homelessness, etc. (this list is illustrative, not exhaustive).

We will also welcome applications from the following categories:

- children's causes that give children a better future
- international causes working to bring social benefit in developing countries
- environmental causes that can demonstrate a social benefit
- health causes supporting people through ill-health or finding cures through research.

We are unlikely to support applications from the following categories:

- animal welfare causes that do not also have a clear social benefit
- causes that are solely aimed at the advancement of religion
- causes that involve political campaigning.

Fundraising strategy

Applicants must be able to demonstrate a clear strategy for how they would raise sufficient money through a Bond. They should give a target figure and explain why they think this figure is attainable.

For a Bond to be cost-effective, the minimum target is £500,000. If Citylife gives initial approval to proceed to a pledging stage, at least £250,000 must be pledged for Citylife to offer a Bond.

Sustainability

Preference may be given to organisations that can show how the money raised through a Bond would enable them to become more financially sustainable.