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Do Nonprofits Really Need Personal Guarantors on Their Credit Accounts?

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The pandemic has forced us to examine our work-life balance as work has crept into our homes and made the separation more difficult than ever to maintain. Nonprofit employees have experienced the challenges of indefinite work hours, distractions at home, frustrating technology, and more. One pain that existed for nonprofits well before the pandemic was the requirement by many mainstream financial institutions that nonprofit staff or board members provide personal social security numbers and guarantees to open an organizational credit card account.

Many nonprofits are unaware that alternatives exist. Personally guaranteeing the organization's credit card can negatively affect the individual's credit score. The risk runs both ways, as the guarantor's credit behavior can also affect the nonprofit. As a matter of equity, nonprofits operating in communities and with leadership of varying wealth should not have to rely on employees or volunteers to provide a credit history and social security number in order to secure an organizational credit card.

If your nonprofit doesn't have a business credit card account, or doesn't have cards for all employees that regularly incur expenses on the organization's behalf, that can also be problematic. Requiring employees or volunteers to use their own credit card or personal funds to cover travel or other items on behalf of the nonprofit, and then

wait to have their expenses reimbursed, is another equity issue, as many people can't afford to advance those funds even for a few days. They're essentially being asked to loan money to the nonprofit.

In addition, business credit cards can offer a layer of security against fraud, particularly as compared with debit cards.

Yet many lenders will not issue credit cards to a nonprofit without a personal guarantee on the account. With more than 90 percent of nonprofits operating with budgets under \$1 million, many struggle to obtain a credit card without such a personal guarantee. This can pose problems when there is staff or board turnover, and increases the chance of purposeful or accidental "commingling" of organizational funds with personal funds.

The nonprofit may also be missing out on an opportunity to build its creditworthiness and become a more favorable candidate for similar programs in the future, as the organization's good credit behavior is attributed to the guarantor.

If your nonprofit is turned down for a business credit card without a personal guarantee, talk to your bank, escalating to a manager if necessary. If you still don't find satisfaction, call around to other local banks or credit bureaus. You might also want to check out the no-fee Mastercard created just for nonprofits, [Charity Charge](#). Charity Charge considers the common practice among banks of requiring a personal guarantor for a nonprofit's business card to be contrary to established business principles. Other options are platforms like [Brex](#) and [Divvy](#), which offer no-fee business credit cards in combination with expense and spending management. Both permit administrators to create "virtual cards" (such as for a volunteer's one-time use), set limits on individual cards, or zero out a card. Divvy also integrates with Quickbooks Online.

These options help keep organizational and personal accounts and credit separated – to the benefit of both parties.

If your nonprofit is using or plans to use credit cards, and doesn't already have a policy for credit card use in place, you might consider implementing such a policy. You can find samples of policies [here](#) (from Belfint-Lyons-Shuman, CPAs) and [here](#) (from Bernard, Johnson & Company).

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