

## Smart Grants for Down Markets

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Many foundations are suffering endowment declines of 20% due to current stock market conditions. Trustees fret that meeting the annual 5% distribution will eat further into their endowments. “Program-related investments” (PRIs) are a special type of grant that is gaining popularity as a way to preserve endowment assets while pursuing a charitable mission. As you’ll see below, PRIs are program tools like grants and should not be confused with other forms of “socially responsible investing” where producing financial return is a priority.



■ Member question time

**H**ow does a PRI work? In a simple example, the Jones Foundation makes a \$50,000 deposit in a community loan fund that finances affordable housing. The loan fund offers to pay the foundation 2% interest over a 12-month period. The foundation immediately earns credit of the entire

investment amount toward its 5% distribution requirement even though it can ask the the loan fund to return \$51,000 to the foundation at the end of the year.

PRIs can take many forms: a below market rate federally insured deposit in development bank, a loan to a nonprofit to launch a new program, a bridge loan until a nonprofit receives its delayed contract payment, or even an equity investment in a community development venture capital fund. Some loan guarantees and asset purchases also can be classified as PRIs.

Francie Brody, a presenter the ASF’s recent national conference and partner with Brody-Weiser-Burns in Branford, CT, points out that PRIs are a great addition to the grantmaker’s toolbox: “The investment recipient may raise a larger pool of funds than it could with grants alone, deepen its financial management and long-

term planning, and become more ‘bankable’ by establishing a good credit history. In turn, the foundation can recycle funds for more than one project, increasing its long-term impact. The PRI also may enable the foundation to expand resources available for an important project, draw new funding partners into its work, and develop long-term relationships with organizations.”

The investment should be consistent with the charitable goals of the foundation, and the foundation should be able to document that fit. IRS regulations also state that the primary reason for the investment is not to make money. PRIs are exempt from “prudent man rules” and must be made at below market rates. Outstanding PRIs are a special charitable asset class excluded from the 5% distribution requirement.

While the foundation receives immediate credit from the IRS towards the 5% distribution requirement, when (and if) the investment is repaid, the repayment will affect the distribution requirements in the repayment year. It is common for a foundation to reinvest the funds in another PRI or to recycle the funds as grants at a later date. Thus, viewed from an endowment preservation standpoint, it’s best to think of the PRI as a way to smooth out shocks rather than as a way to avoid giving grants.

Like any investment, there is a risk associated with failure to repay. Foundations that don’t have the time or experience to evaluate a recipients capacity to handle investments often start with a simple below market rate deposit or loan, or seek outside help.

Although more and more foundations are using PRIs, many grantees are not familiar with them. Probably the most ready recipients are “community development financial institutions” such as low-income credit unions, loan funds, and housing trusts, which can be found in many locations around the country.

**Foundation in a Box** has more information in the PRI section at [www.foundationinabox.org](http://www.foundationinabox.org).