

Foundations Offer Loans as a Way to Help Nonprofits

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... Known as "program-related investments," or more popularly "PRIs," the loans and loan guarantees are serving a dual purpose for foundations hammered by stock market losses in 2008.

PRIs, like grants, put money toward projects that might not otherwise get off the ground.

But unlike grants, they also generate income with relatively small risk - research by FSG Social Impact Advisers in Boston found that 96 percent of foundation loans over the past 40 years had been repaid - allowing foundations potentially to fund other nonprofit work.

"Foundation endowments aren't as big as they used to be," noted Monroe. "That money gets to work more than once in a community."

"A terrific tool"

The Internal Revenue Service requires that private foundations annually pay out at least 5 percent of the market value of their assets, as averaged over a 12-month period. Most foundations adhere closely to the 5 percent minimum payout.

In a bull market, foundations usually are able to meet the IRS requirement through their earnings, while building larger endowments that can lead to more grantmaking.

However, when assets fall, in order to survive long term, foundations typically give less.

PRIs enable them to use more than 5 percent of their worth - something that watchdogs have been pushing the grantmaking community to do for years - without diminishing assets.

"Why devote only 5 percent and ignore the power of the other 95 percent?" said Aaron Dorfman, executive director of the National Committee for Responsive Philanthropy.

When done well, PRIs are "a terrific tool to accomplish important and legitimate charitable purposes," said Dorfman.

But PRIs require plenty of attention and shouldn't be approached casually, he added.

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