

PROGRAM RELATED INVESTMENTS

Some of our colleagues in the non-profit sector may be acquainted with Program related investments (PRIs), but I suspect few have explored this potential financial resource. And fewer still are the number of charitable foundations that utilize this investment technique authorized by the Tax Reform Act of 1969.

In summary, PRIs are loans, loan guarantees and equity investments made by charitable foundations to support a charitable purpose as an alternative to traditional grant making. An important feature of a PRI is that it qualifies in the year disbursed toward a foundation's 5% annual payout requirement.

Principal Benefits

The principal benefits for a non-profit 501 (c)(3) organization to consider are:

- Secure funds beyond what outright grants may provide, because the foundation will get the money back.
- Obtain financing for a project perhaps considered too risky by traditional commercial lenders and investors.
- Attract other lenders, investors, and contributors with a "lead" financial commitment in-hand.

IRS Requirements

The requirements imposed on the charitable foundation are:

- Primary objectives must be to accomplish a charitable purpose.
- Production of income must not be primary motive.
- Investment not to be used to influence legislation or elections.

Three Recognized Forms

The essential forms of PRIs are:

- **Loan:** Typically at interest rates below market, or interest-free made as secured or unsecured loans.
- **Loan Guarantee:** Foundation pledges its credit or assets as security for the loan with distribution credit toward the 5% pay-out requirement if there is a default and foundation is called upon to honor its guarantee.

- **Equity Investment:** Stock purchase in for-profit companies known as “social enterprises” whose goals have a desired social impact versus financial gain.

A non-profit organization considering application for a PRI is advised to seek legal and financial counsel, and consider utilizing the extensive resources on this subject at

Foundation Source: www.foundationsource.com.