Nonprofit Lowdown: A Podcast by Rhea Wong (March 12, 2020)

Episode Transcript Part Two: Nonprofit Lending, DAFs, and Fiscal Sponsorship

In March 2020, Sam Marks, Chief Executive Officer of FJC, was interviewed for the podcast Nonprofit Lowdown with Rhea Wong. The interview was a reunion of sorts for these two, as Sam was Rhea's first boss in 1999 when she worked at Summerbridge at the Town School (now known as Breakthrough New York, an organization Rhea later ran for over a decade).

Part One of this interview focuses on Sam's professional journey from his early years in youth development and education to "the dollars and cents side" of the nonprofit sector.

Part Two of the interview focuses on his particular vantage point at FJC, and covers Donor Advised Funds, nonprofit lending, and fiscal sponsorships.

The interview has been condensed and edited for clarity.

So now you're the CEO of FJC. What is that and what do you do?

FJC is a foundation, primarily comprised of Donor Advised Funds or DAFs. The way a DAF works is, you set up an account, you move money into it. That money becomes legally the asset of FJC. The donor gets the full tax benefit of making that donation. But the donor can recommend two things: how that money is invested over time, similar to a foundation endowment. We provide donors with a menu of investment options like stocks and fixed income. They can also recommend how those funds are turned into grants to nonprofit organizations they care about.

You have another part of the house so to speak. Explain the investment side.

The investment side is how we steward the assets of our donors over time. Donors can choose to put it in stocks or bonds. There are some donors, if they're big enough, they can bring a hedge fund or an alternative investment onto our platform. But one of the most popular ways is our impact investing opportunity, FJC's Agency Loan Fund, which is a pool of donor capital that is deployed as loans to nonprofit organizations. So it's great for the donors, because their money can be put to work in the community, supporting the missions of organizations. The principal and interest payments come back to their accounts, so those accounts can grow. They can still make grants with them, but in the meantime, that money is being lent to a full gamut of organizations. Our borrowers are making energy efficiency improvements in buildings, doing homeless services, arts organizations, and more.

Why would a nonprofit organization be interested in taking out a loan?

It's typically to bridge some kind of commitment. If you have a city or state contract for services, and you're working with youth afterschool or doing foreclosure counseling, it's great to have that contract but you can't pay the bills with a contract. You can only pay the bills with cash. Many city and state contracts for various reasons take a long time to pay. So many of the nonprofits that come to us have an urgent cash flow need, and we're a pretty nimble, flexible organization. We can turn a decision around about a loan in just a couple or three weeks. A lot of nonprofits find that to be a critical service to even out their cash flow, make payroll, or pay their vendors.

> *"The [DAF] donor can recommend two things: how that money is invested over time, similar to a foundation endowment, and how those funds are turned into grants to nonprofit organizations they care about."*

What do you look for when you're making a loan?

The types of organizations we work with are a range of sizes and missions, but they have to be credit-worthy. That means they have to have some experience, not necessarily being a borrower (a lot of our borrowers have never borrowed money before), but they have to have some ability to have an informed conversation about their finances and their plan to repay the loan. Typically, we're bridging a city or state contract, or a capital grant. They have to be able to understand their business well enough to say how they are going to pay it back.

They will also need some kind of collateral. In some cases that can be a piece of real estate that we can secure the loan, but other times they may be able to provide a guarantee. Perhaps a guarantor on their board or some other asset that can serve as collateral.

Is there a general size of loan that you're looking at?

It runs the gamut. We've made loans as small as $10,000 and as high as $4 million. Above $4 million we sometimes work with a co-lender or two. So we're pretty flexible.

> *"[FJC's Agency Loan Fund] is great for the donors, because their money can be put to work in the community, supporting the missions of organizations. The principal and interest payments come back to their accounts, so those accounts can grow."*

What other lending options are there out there for nonprofits?

There are banks and credit unions. There are banks with very focused nonprofit business lines like Amalgamated Bank or M&T. There are also community development financial institutions, or CDFIs. Examples include LISC, where I used to work, Nonprofit Finance Fund, Low income Investment Fund, and many others. These are specialized nonprofit lenders. They are nonprofits themselves, and they lend to nonprofits. They tend to focus more on capital projects, like affordable housing or community centers. They tend to lend secured against real estate, though not always. The Fund for the City of New York will also lend against city contracts. So there is an ecosystem that serves this niche.

> "We're a good [lending] option for organizations whose needs are maybe a little bit more urgent, and we can be pretty flexible and nimble about getting to yes."

Why would an organization choose to approach you for a loan, as opposed to getting a line of credit from a bank?

Bank loans are probably going to be a little bit cheaper, if you can get one. The reason we are competitive is that we are very fast and nimble in terms of our decision making. We're a pretty small outfit. A bank or larger institutions may have credit committees and layers or approval processes, and they may have people making decisions about loans that don't particularly know about the nonprofit sector. They might not be comfortable with a city or state contract acting as repayment source. But we know the nonprofit sector really well, and we can get to a decision pretty quickly.

If a nonprofit has enough lead time and relationships at a bank, maybe they keep their deposits there, if they can make a line of credit work, they should definitely do that. We're a good option for organizations whose needs are maybe a little bit more urgent, and we can be pretty flexible and nimble about getting to yes.

What else should nonprofits consider if thinking about taking out a loan? What else do you look for in deciding if a nonprofit is ready for a loan? Do they need to have a CFO?

Nonprofit organizations can get to that level of sophistication in a lot of different ways. It can be an Executive Director or a Board Member where that expertise sits. There are organizations that become big and complex enough, where the business fundamentals include different revenue sources like earned revenue, grants and multiple city and state contracts. Then the cash flow forecasting gets to be more complicated. You might have an investment portfolio. In those cases we often see organizations with CFOs. We see a lot of organizations starting to outsource their CFO function. There are companies like BTQ Financial that work with a lot of organizations we know. FMA is another one. So there are a lot of different solutions that are tailored to nonprofits.

> "[Our fiscal sponsorship program works with] organizations that are earlier in their life cycle. They want to get donations but they don't have that IRS determination letter yet. We can act as the 501(c)(3)."

I should mention also, another part of our business is fiscal sponsorships. These are with organizations that are earlier in their life cycle. These are organizations that don't have their own 501(c)(3) status. They want to get donations but they don't have that IRS determination letter yet. We can act as the 501(c)(3), we can accept grant payments, we can pay their vendors and provide them with some pretty basic accounting of their income and expenses. We have about 160 organizations we work with. We are set up to do that because having DAFs, we're set up to be accepting money and getting payments out in a pretty rapid way, so those capabilities fit well with a fiscal sponsorship program.

What’s the cost of your fiscal sponsorship program?

Our fiscal sponsorship program is pretty reasonably priced. It’s generally 4-6% of inbound donations (plus 1% annually on the average daily balance). And the reason why we’re reasonable is that we’re a pretty bare-bones fiscal sponsorship program. Other organizations will provide a lot more types of services or technical assistance. We engage with our organizations a lot and give them a lot of advice and contacts but it’s done in a more informal way.

Part One of this interview focuses on Sam’s professional journey from his early years in youth development and education to “the dollars and cents side” of the nonprofit sector.

For an audio version of this interview (and dozens of others with nonprofit leaders), check out Nonprofit Lowdown, Rhea Wong’s fabulous podcast, where she reviews and recommends the best ideas, resources, tools, tricks and tips to “run your nonprofit like a pro!”