Market Rate or Concessionary?

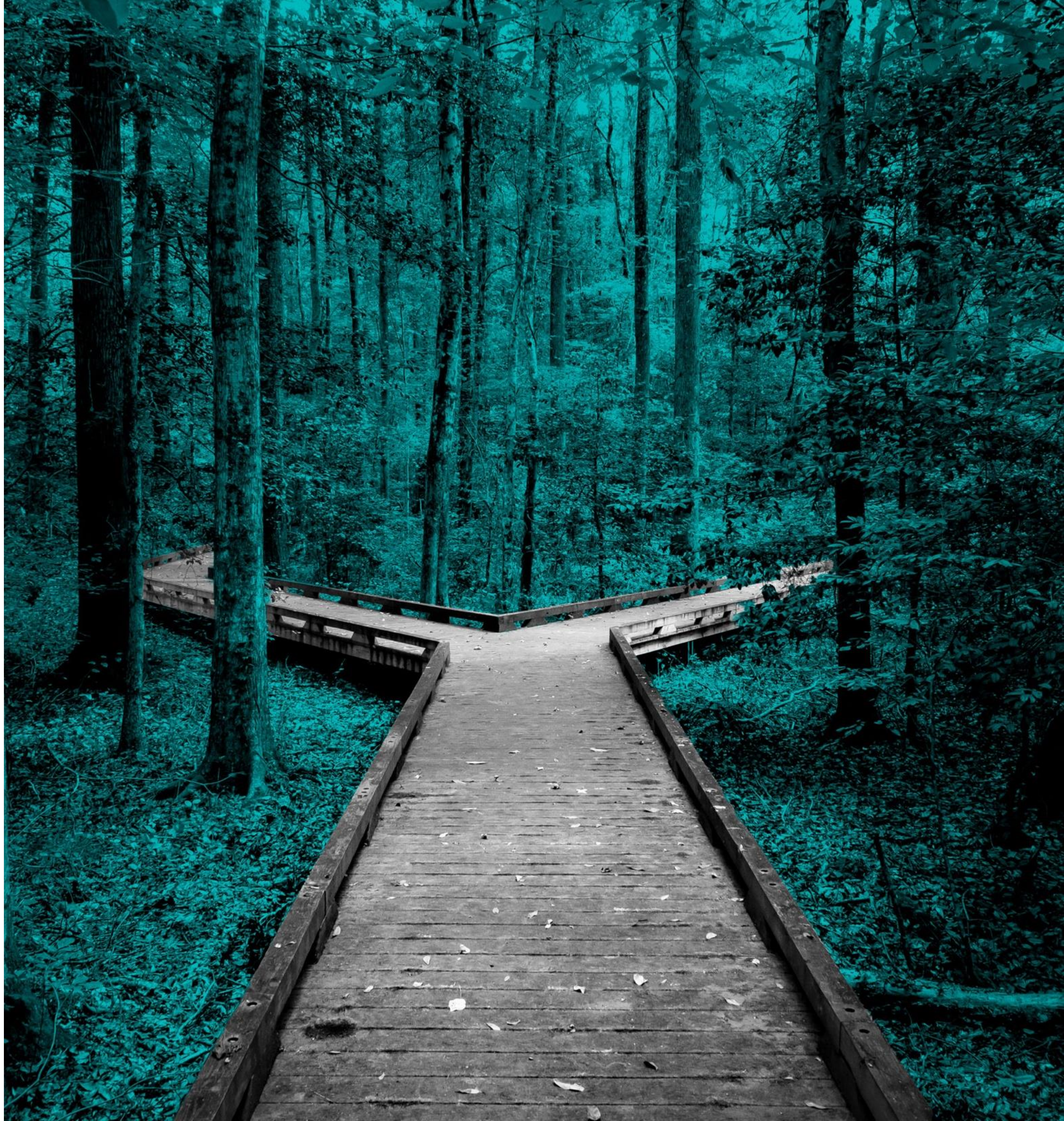
Which loan type is right for your favorite nonprofit?

FJC A Foundation of Philanthropic Funds

Lending at FJC

There are two types of lending we do at FJC:

- Agency Loan Fund (ALF)
- Customized Loans



Agency Loan Fund

Source:

FJC's loan pool, sourced from participating donors

Return Expectations:

Market rate risk-adjusted return

Credit Standards:

High

Interest Rate:

Market-rate (floating Prime + 3%)

Customized Loan

Source:

Capitalized by a specific donor

Return Expectations:

Varies, depending on the donor. Generally below market rate.

Credit Standards:

Varies, depending on the donor interest. Generally more flexible than ALF

Interest Rate:

Varies, depending on the donor. Generally below market

What Nonprofits Should Apply for the Agency Loan Fund (ALF)?

ALF is a good option for nonprofits who need a loan right away, and who can meet our high credit standards. FJC sources funds that we pool together from participating donor advised fund (DAF) accounts. Donors choose ALF as an investment product for their DAF accounts from a menu of options that include standard low-cost mutual funds (stocks, bonds, money market funds). Their goals are generally (in this order): capital preservation, a risk-adjusted return and mission impact. FJC has a fiduciary duty to these donors, so we underwrite loans to rigorous credit standards, and we lend at a market rate of interest.

When Can Nonprofits Access Customized Loans at FJC?

Nonprofits generally prefer to borrow at below-market rates and undergo a less rigorous process to get approved. The catch is, FJC does not have a ready source of capital to make these kinds of loans. **When a nonprofit can bring a donor to FJC to capitalize a loan or loan fund, FJC can move fairly quickly to execute such a loan on behalf of a donor.** We welcome these collaborations.

When donors at FJC deploy funds in their individual donor advised fund accounts as loans, we refer to these as Customized Loans. Generally when donors recommend these Customized Loans, they are willing to do so on terms that are more concessionary in nature. That's because the donor is motivated primarily by impact (willing to take a below-market return, relative to risk) and they believe in the mission of the nonprofit they choose to lend to. In this case, the donor fully takes the risk of principal loss. Unlike with ALF, where funds are pooled, If a customized loan goes bad, only that donor's DAF account is affected.

.

Risk assessment for ALF Loans

For **ALF**, FJC reviews loan applications from prospective nonprofit borrowers, performs the credit analysis, and present prospective loans to our credit committee.

The credit review process usually begins with a conversation to understand the nonprofit's mission, need and suitability for the ALF loan product: maturity no more than 3-5 years; bridge lending to some predictable repayment source; non-revolving; floating interest rate of prime + 3%.

Assuming the prospective borrower wants to proceed, FJC staff would review:

- Organizational information regarding mission, governance, key staff and board
- Three years of audited financial statements
- Description and documentation of collateral (and possibly guarantees, if necessary)
- Plan for repayment
- Budgets and cash flow projections
- Other supporting documentation

As part of the credit analysis, FJC staff will assess the financial health of the borrower and its ability to pay debt service over the course of the loan.

ALF loans are nearly always secured by collateral, which could take the form of a property mortgage (if available), proceeds from public sector grants or contracts, or other assets. Depending on the quality of the collateral, FJC may request guarantees from affiliated entities or individuals (like Board Members). If the prospective borrower has other lending relationships, a loan from FJC may be subject to an intercreditor agreement with those lenders that "carves out" a particular asset or group of assets as FJC's collateral.

Risk Assessment for Customized Loans

When making a **Customized Loan** on behalf of a donor, we generally defer to the risk assessment / tolerance of the donor, as well as the terms upon which they are comfortable lending. Generally, donors that request Customized Loans are willing to provide loans on terms that are more flexible than ALF, and their risk assessment is less rigorous than what is described above. Typically the donor knows an organization well, trusts the leadership, and wants to offer philanthropic capital as a more friendly alternative to more traditional loans, which carry a higher interest rate and more stringent terms.

	Agency Loan Fund	Customized Loan
Capital Availability	Loan capital is available now from FJC's Agency Loan Fund	Requires a willing donor with a DAF account at FJC
Term	Not longer than 3-5 years	Up to the donor; can be longer, shorter term, or even perennial in some cases
Security	Typically secured by collateral (real estate mortgage, contract receivable, etc)	Often unsecured, up to the donor
Guarantees	May be required depending on credit quality of the borrower and collateral	Generally not required.
Revolving	No. When a borrower makes a loan payment, that portion of the loan commitment cannot be drawn again.	Up to the donor.
Interest rate	Floating prime +3% (currently 10.5%, effective as of 12/19/24)	Up to the donor. Generally between 0-3% fixed
Due diligence responsibility	FJC staff performs credit risk analysis on all ALF borrowers	We generally defer to the donor's due diligence. Upon request, FJC staff can provide technical assistance in this process.
Governance authority	Approval required by FJC Board of Directors	Approval required by FJC Board of Directors, which generally defer to credit analysis and recommendation of the donor
Legal agreement	Loan agreement between FJC and borrower generated in-house by FJC staff.	Loan agreement between FJC and borrower generated in-house by FJC staff. We sometimes also document the intention of the donor in a simple Memorandum of Understanding.
Legal remedies for default	Robust remedies included in the agreement.	Remedies included in the agreement, robustness to be recommended by the donor.
Who bears the credit risk	ALF pool of donor capital, which is credit enhanced by a third party	The donor account requesting the Customized Loan. If the loan goes bad, it's converted to a grant and that donor account is reduced by the principal. No credit enhancement.
Capital use after maturity	When loan matures, capital repaid remains in the ALF pool for lending to another nonprofit borrower	When loan matures, capital repaid remains in the donor's DAF account to be recycled for other philanthropic purposes at the recommendation of the donor (grants, loans, etc).

Appendix

FJC – A Foundation of Philanthropic Funds (FJC) is a boutique public charity that offers a diverse menu of philanthropic services to a range of stakeholders. With over $450 million under management, FJC is primarily a platform for Donor Advised Funds (DAFs). In addition to DAF accounts, its over 1,200 accounts include fiscal sponsorships, collective giving accounts, and many other philanthropic vehicles that enable nonprofit organizations and their supporters to achieve their missions.

FJC was founded in 1995 when a small group of dedicated philanthropists established a boutique sponsor of donor advised funds that would be uniquely customizable for new generations of philanthropists who sought to combine philanthropic intent and commitment to the nonprofit sector with business acumen and strong capabilities around finance and impact investing.

Fundamentally, FJC acts as a scaled platform that allows its account holders to focus on mission, rather than be burdened with the details of operations and compliance.

A Foundation of Philanthropic Funds

One component of FJC's mission is to inspire more donors to use their philanthropic funds in ways that meet the critical business needs of nonprofits. We welcome the opportunity to work with your donor to arrange a customized solution that works for both the donor and your organization.

For more information, please contact:

Sam Marks

Chief Executive Officer

Marks@fjc.org

(212) 714-0001