

*JLens is a nonprofit association providing education on the use of investment and business to repair the world. JLens also works with institutional investors (federations, family foundations, endowments, pensions, nonprofits) to create Jewish values-aligned/impact investment strategies that meet financial goals and support a variety of missions including education, healthcare, poverty alleviation, the environment, and impactful Israeli innovation. This case study highlights one of the best examples of investment capital used for social good in the Jewish community.*

### **Geraldo, Cerebral Palsy and the S&L Crisis: An Unexpected Recipe for Investing with Jewish Values**

In 1972 a relatively unknown reporter named Geraldo Rivera released a documentary highlighting the abuse and neglect of disabled patients at Staten Island's Willowbrook School. Public outcry led to a signed consent decree by New York State transferring Willowbrook's patients to 200 smaller group homes for better care. United Cerebral Palsy of New York (UCP), a leading nonprofit organization advancing the rights of people with disabilities, played a key role building the new group homes.

To finance the construction, UCP received bridge loans from local banks. Upon completion of a group home, New York State would issue bonds to repay the bridge loans. At the height of the Savings & Loan Crisis in the 1980s, the banks providing bridge loans failed, and UCP was in desperate need of financing. UCP leadership turned to their donors for help and Alan Smith\* stepped up to provide a bridge loan from his family foundation's investment capital to support the continued construction. The loan was repaid and the foundation began to develop a reputation as a lender to the nonprofit sector.

A few years later, Alan's family was approached by United Jewish Appeal (UJA), a philanthropic umbrella organization. As large numbers of Russian Jews were immigrating to the United States, UJA organized a successful fundraising campaign for re-settlement efforts. However, UJA urgently needed cash for housing, food, language training and childcare and couldn't wait for the collection of pledges. Alan's family also had a donor-advised fund (a charitable giving vehicle) administered by UJA and he suggested that the fund would be an excellent source of short-term capital to support Russian Jewry. It had long frustrated Alan that the only investment option UJA provided to donor-advised fund holders was two-year treasury notes. UJA declined his suggestion and instead requested a loan from Alan's family foundation. The foundation loaned \$10 million to UJA against the pledges at a prime plus 3% interest rate, or approximately 10% at the time.

\*Name has been changed to protect privacy.

In light of UJA's reluctance to use donor-advised fund capital for mission-related investments, Alan decided to pursue the idea on his own. A new community foundation was created to pool donors' funds and permit investments for social good before the funds were eventually used for charitable donations. Alan's family and others officially launched FJC (Foundation for the Jewish Community) in 1995. Today the organization has over 1,000 donor-advised funds and upon the recommendation of its donors, FJC has donated more than \$100 million to charities around the world. The flagship investment option for the funds at FJC awaiting donation is FJC's Agency Loan Fund. Since 1995 the fund has provided over \$200 million in loans to approximately 200 nonprofit organizations. The pool of capital at FJC benefits society in two ways: first it is loaned out to support the capital needs of charitable organizations, and ultimately the money is given away to charities at the donors' recommendation. Over 65% of donor-advised fund holders at FJC have selected the Agency Loan Fund as one of their investment options; other options include traditional and socially responsible investments as well as alternative investments for large donors.

### ***Settlement Housing: A Dream Project***

The Agency Loan Fund has made loans to charitable organizations with a wide variety of missions over the past 18 years. One example is the \$8 million loan in 2007 to Settlement Housing for an ambitious development in the poorest neighborhood of the Bronx. Since the maximum loan size for the Agency Loan Fund is \$4 million, the family foundation provided the additional \$4 million. Given the nature of the project, a mortgage wasn't possible on the buildings, so Settlement Housing pledged the income rights to another project they owned. "This was a dream project of a lifetime," explained Carol Lamberg, the organization's Executive Director. "Citibank refused to lend to us without a mortgage option. We could not have proceeded without FJC and the family foundation's flexibility in structuring a loan for us. They are real heroes. We paid our loan back in three years." The new development has 1,022 apartments where 30% of residents were formerly homeless, a modern K-12 public school, and a community center with programming for all ages including swim lessons, Alvin Ailey dance classes, and college preparation.

FJC also sets up revolving loan funds for organizations that need more flexible financing. Farmworker Justice, an organization that litigates on behalf of abused farmworkers, benefits from a revolving fund that covers current legal expenses before judgments are awarded. The organization Bronx Defenders uses a revolving fund at FJC to post bail for juveniles charged with crimes. When the juvenile shows up for their court date, the bail money is returned to the fund. The Baltimore Jewish Federation has a \$100,000 revolving green energy loan fund with FJC to finance green energy retrofits for member agencies. If an agency borrows money from the green energy loan fund and defaults, the Baltimore Federation must return the

remainder of the loan to FJC. Mark Smolarz, the Chief Operating and Financial Officer explained, “What FJC does is wonderful. The fund has so far enabled nine Baltimore organizations to upgrade to energy efficient lighting with a projected cumulative annual cost savings of \$88,000. Reduced energy costs for nonprofits means more money is available for the organization’s mission. We have greater demand for green energy loans than we have money in the fund.”

### ***Standardized Lending Process***

FJC’s Loan Committee oversees the loan evaluation process. The terms of the loan are straightforward and standardized for all borrowers with a floating annual interest rate of prime plus 3%. This interest rate dates back to the family foundation’s first loan to United Cerebral Palsy of New York. At the time, New York State agreed to reimburse the bridge loan interest expense, but only up to prime plus 3%. Borrowers from the Agency Loan Fund have to be credit qualified. Unlike bank loans, there is no prepayment penalty. At present the fund has approximately \$60 million in the loan pool with \$45 million currently out on loan. Donor-advised fund holders at FJC also have the option of using their funds to offer a charity a loan at an interest rate of their choosing, or to use their fund as a credit enhancement so that FJC can accommodate a loan to a particular charity.

The Agency Loan Fund has a 100% repayment rate, but not because organizations don’t occasionally default on their loans. When a loan is in danger of default, Alan’s family foundation will purchase the loan to provide a first loss fail safe to the fund’s other investors. Over the past 18 years, only a ‘handful’ of loans have actually defaulted according to Alan. The foundation continues to pursue repayment and has a strict policy to not forgive loans. The unappealing task of chasing nonprofits for repayment is one of the reasons there isn’t more capital available to the nonprofit sector; banks do not want the resulting unfavorable media attention. However, the family foundation believes that repayment is critical to ensure capital is available for future loans and to uphold the confidence of the fund’s investors.

“There is risk involved with funding these types of activities,” explained Alan. “But the overall process is delightful. We get thank you letters from organizations that would not have been able to complete a new building, or launch public radio in a new location, without the loan capital. The fund is an enabler of social good.”

The primary grantmaking focus of Alan’s family foundation includes the elderly, the environment, human rights, and child protection. Unlike some foundations, they do not limit grants to 3 years and often continue to support organizations for long periods of time. As a result, they are fully budgeted for grantmaking activities and are not able to accept unsolicited proposals. However, by using their investment capital to make loans to any charitable organization with qualified credit, they can assist many more worthy causes than just their grantmaking alone will support.

Alan noted, “We could buy stocks and bonds as an investment, but instead we are using foundation capital to assist other nonprofits and further our social purpose mission.”

***Program-Related Investments Further Foundation’s Reach***

The Agency Loan Fund’s delinquent loans assumed by the family foundation are converted to program-related investments (PRIs). PRIs are investments with an uncertain financial return that support charitable purposes and therefore count towards a foundation’s required annual distribution of 5% of total assets. In addition to the delinquent FJC loans, the foundation makes approximately \$14 million in independent PRIs per year in a variety of areas such as: microloans and women’s empowerment training in Latin America, arts organizations rebuilding after September 11<sup>th</sup>, the Hebrew Free Loan Society, the Deferred Action for Childhood Arrivals program for illegal immigrants, mortgage foreclosure prevention, solar energy installation in Rwanda, and educational groups.

Through their foundation’s program-related investments, and the creation of FJC’s Agency Loan Fund, the family has leveraged philanthropic capital over the past thirty years to create significantly broader impact. Jewish tradition teaches that it is a commandment and a good deed (mitzvah) to help those less fortunate. Alan draws inspiration for his charitable activities from Anne Frank. While hiding from the Nazis she wrote in her diary, “How wonderful it is that nobody needs to wait a single moment before starting to improve the world.”

*Please contact Julie Hammerman ([julie@jlensnetwork.org](mailto:julie@jlensnetwork.org)) to learn more about JLens, to suggest a future case study, or to have JLens facilitate a business school style discussion/debate on this case study at an upcoming meeting or conference.*