Answers to Some Frequently Asked Questions About PRIs

1. What is a Program-Related Investment (PRI)?

A PRI is an investment by a foundation to support a charitable project or activity. Usually structured as loans, PRIs can also be equity investments or loan guarantees. A PRI is similar to a recyclable grant: the repayment of a loan or the return of equity can eventually be recycled for another charitable purpose. The IRS defines a PRI as any investment by a foundation that meets the following three tests:

- Its primary purpose is to further some aspect of the foundation's charitable mission;
- The production of income or the appreciation of property is not a significant purpose of the PRI (i.e., it is structured to produce lower-than-market returns on a risk-adjusted basis); and,
- It may not be used to support any lobbying or political campaign activities.

2. Who receives PRIs and what kinds of projects do they fund?

While many PRIs support production of affordable housing and community development, they also fund a broad array of other charitable projects, including arts and social services projects. Other uses include loans for nonprofit facility renovations, equipment purchases, and working capital for nonprofit organizations. The sponsor of a charitable project may be a for-profit or nonprofit organization.

3. Who makes PRIs?

Foundations of all sizes and types make PRIs--including family, community, corporate, and private foundations. In addition, non-foundation charities associated with corporations or religious institutions make social investments similar to PRIs. Some foundations collaborate to make PRIs to a single, special-purpose organization or intermediary which, in turn, lends the money to qualifying nonprofits and projects.

4. What are the benefits of PRIs for the funder and the borrower?

For Funders:

- Recycled Resources - PRIs can be used to advance program goals and, once they are repaid, can be re-used for new projects.

- Large Projects - When a desirable project requires funding that exceeds a foundation's typical grant size, PRIs can sometimes provide the needed capital, e.g., to finance a capital improvement or a facility for a longstanding grantee.

- Varied Partners and Leverage - PRIs may attract other lenders to the project and leverage additional funds from banks, corporations, or government.

- Visibility - PRIs may help support a particularly important local project that requires capital investment.

- Pay-Out Requirements - For private foundations, PRIs may help meet pay-out requirements during a time of unexpected asset growth. PRIs provide immediate distribution credits, with the likelihood that the capital will he available again in the future.

For Borrowers:

- Long-Term Relationships - PRIs help establish productive, long-term relationships with a funder by creating a partnership with mutual financial and programmatic objectives.

- Administrative Strength - PRIs can help foster management capacity and produce a more "bankable" organization over time by helping to establish a credit history.

- Large Projects - PRIs can help raise capital in addition to grant resources for larger projects.

5. What is an appropriate size for a PRI?

The size of a PRI can range from $1,000 to several million dollars, and is influenced by the needs of a project or borrower, the ability of the borrower to repay, and varying program strategies among foundations.

6. What are the interest rates, terms, and structures?

Interest rates on PRIs may vary from zero percent to just below the prevailing market rate. The IRS requires rates to be below-market on a risk-adjusted basis. Typically, rates are calibrated to each borrower's capacity and to the project's ability to make principal and interest payments. A foundation's desire to generate interest income from its PRIs may also determine or affect rates, provided earnings are not a significant reason for making the PRI.

7. Are PRIs Usually Repaid?

Most PRIs are repaid on time, with interest. The Ford Foundation plans for a 15% loss rate because it uses PRIs to support experimental program models that carry some repayment risk. Other foundations experience much lower loss rates. Foundations often make loans to specialized intermediary organizations, thereby reducing risk by drawing on the intermediary's expertise.

8. How do Foundations Fund PRIs?

A foundation may set aside a portion of its assets to fund PRIs or incorporate them into its grant budget. In either case, PRI disbursements count toward the annual 5% distribution requirement. Most foundations that use PRIs seek a portfolio level ranging from 1% to 5% of the total corpus.
