

Lending to Charities Can Allow Investors To Combine Flexibility and Generosity

**YOUR
MONEY
MATTERS**

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Want to lend some money to a good cause?

While most charities pay for their good works primarily with donations, a number also operate funds that use borrowed money. The Paul and Silas Revolving Bail Fund, for instance, borrows money to post bail for illegal refugees so they won't be deported while they seek asylum outside the U.S. Once they leave the country, the bail is returned and the loans are repaid.

Loans to charities are an odd kind of investment. Many pay little or no interest, offer no collateral and are used for projects that might make a banker blanch. Moreover, loans don't provide the same tax advantages as donations.

Even so, lending can be an attractive way to support favorite causes. It allows a lender to use the same sum of money to finance different projects at different times. And it gives some investment flexibility.

Flexibility of the Loan

Loan funds offer a variety of interest rates and maturities and will generally repay a loan on demand if a lender needs cash for an emergency. For those rare individuals who have already taken nearly all their allowable charitable deductions—50% of adjusted gross income—lending can be a relatively inexpensive way of extending their charitable contributions.

Flexibility is one reason that Ruth Heath of Westport, Mass., decided to make a loan earning 7% interest to a fund run by the Institute for Community Economics, or I.C.E., a Greenfield, Mass.-based group that supports grass-roots community-development projects. When a personal need forced her to ask for some of her money back, "it was perfectly all right," she says.

Loan funds run by other groups engage in such projects as buying and renovating apartment buildings for low-income housing, helping low-income pulpwood cutters buy timber rights and providing mortgages to home buyers whose purchases promote

desegregation. I.C.E., which also helps to start other funds, is probably the best source of information about funds nationwide.

Even in the funds that offer interest rates close to market levels, a surprising number of investors choose not to receive interest. About half of I.C.E.'s 100 lenders get between 6% and 9%, says Chuck Matthei, director, but a quarter don't ask for anything.

Mr. Matthei notes that investors who lend money for little or no interest are required to report imputed-interest income at a fair market rate on their tax returns. The imputed income can then be deducted as a charitable contribution. But investors

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can also generally convert their non-deductible loans to deductible contributions should they decide a loan no longer suits their financial circumstances. To do so, the investor would give the fund the money to repay the loan, which would qualify the gift as a charitable deduction.

One I.C.E. no-interest investor is D. Wayne Silby, co-founder of Calvert Group, a Bethesda, Md.-based money-management concern that has pioneered "socially conscious" investing. Mr. Silby's \$10,000 investment, however, is a personal loan; Calvert doesn't invest with I.C.E. because, says Mr. Silby, it would be irresponsible to invest other peoples' money in such charitable funds.

'IOU for a Relationship'

Mr. Silby's personal investment criteria don't depend heavily on yield. "My first criterion is—'Is this an expression of me in the world, including my fears and insecurities?'" he says. Money is "no more than an IOU for a relationship," and lending to those who are doing good "is a nice way to share myself. I can let others use my energy and return it."

Hildegard Hannum, another no-interest lender to I.C.E., has also lent money at

no interest to another community-development fund, the Cooperative Fund of New England. "I felt I shouldn't make money out of giving money that's needed by other people," she says.

Management of the loan funds runs from informal to highly professional. Many of the larger funds, such as the one sponsored by Jubilee Housing of Washington, D.C., set up reserve accounts to make sure they can repay their lenders.

Jubilee, which established its fund two years ago to finance low-income housing developments, keeps 20% of the \$1 million it has borrowed in liquid investments. Loans aren't guaranteed, says Richard Schuurman, the fund's development director, but they are backed by Jubilee's \$3 million of equity in buildings it owns. "No loan has ever gone into default," Mr. Schuurman says.

Much Like a Bank

Mr. Matthei of I.C.E. insists that a well-managed fund is as secure as a bank. Indeed, most funds operate much like a bank, covering their operating costs out of the difference—three percentage points in Jubilee's case—between the interest rate on their borrowings and that on their loans. "We start out having to disprove the assumption that community investment is noble but not a businesslike pursuit," says Mr. Matthei. Banks are expected to have nonperforming loans, he adds, but if I.C.E. had such loans, its reputation would suffer and "we'd be out of business."

Potential investors should also be businesslike, advises Mr. Silby of Calvert Group. "People just shouldn't support any charitable investment," he says. "The idea is to help people be responsible with money." Would-be investors should look as hard at a fund's financial statements, as they do at those of any other investment, he adds, even if they are willing to accept a lower rate of return.

Mr. Matthei adds that he "would be wary of any group that couldn't demonstrate that the people involved in management and loan decision-making have substantial backgrounds in the fields they're lending to," he says. Without that background, he says, a fund will either lend foolishly or be so frightened by the unconventional nature of the projects it sees that it won't put investors' money to use at all.