

SeaChange

An Opt-In Approach to
Program Related Investment

June 2021

The New York Pooled PRI Fund

NYPRI

SeaChange

NYPRI is managed by SeaChange Capital Partners (“SeaChange”), a nonprofit founded in 2007 by senior Wall Street executives to help nonprofits facing complex financial and organizational challenges. SeaChange supports nonprofits with grants, loans, consulting, and research. Although active on a national basis, the majority of SeaChange’s activities are concentrated in New York where it has become deeply embedded in the local nonprofit and philanthropic ecosystem, and Philadelphia, where it has also built a strong presence. SeaChange has a staff of seven, primarily with backgrounds in finance, an independent board of directors, and works with an active network of consultants and volunteers.

Executive **SUMMARY**

The New York Pooled PRI Fund (“NYPRI”) provides flexible, high-impact loans to New York City nonprofits while also offering attractive program-related investment (“PRI”) opportunities to foundations.¹ NYPRI has been a success for the 12

participating foundations, who do substantially all their program-related investment through the fund. Most importantly, NYPRI has facilitated increased PRI-making by its participants and thereby provided loans to 19 nonprofits that would not otherwise have had access to capital for their projects. Although New York has a very broad and deep philanthropic and nonprofit sector, a third party assessment suggests that NYPRI’s unique structure—combining an efficient investment process with an “opt-in” funding model—might be replicable in other communities to facilitate place-based or sector-specific impact investing by mid-sized foundations interested to use their balance sheets to support nonprofits.²

¹ PRIs have the primary purpose of advancing the foundation’s purpose rather than producing financial returns. More information is available at [IRS.gov](https://www.irs.gov).

² See [Investing Together: Emerging Approaches in Collaborative Place-Based Impact Investing](#).

The ORIGINS OF NYPRI

In 2012, SeaChange established the New York Merger and Collaboration Fund (“NYMAC”) as a grant-making entity that supports nonprofits in the exploration of mergers and other forms of sustained collaboration. NYMAC’s founding funders included SeaChange, five of New York’s leading foundations, and a dozen high net worth individuals. After NYMAC had proven successful for both nonprofits and funders, SeaChange began to explore whether other unmet nonprofit needs might be addressed by structuring a similar multi-party fund.

One evident nonprofit need was for loans requiring more flexibility, in terms of risk, timing, or process than is typically available from conventional lenders.³ SeaChange felt that many of these loans offered a balance of social return and financial risk that would be attractive to foundations and socially motivated individual investors if a mechanism could be found to efficiently connect them.

SeaChange identified Contact Fund as one of the few sources of this type of flexible, high-impact lending. Contact Fund had been established in 2005 to allow high net worth individuals to support—through loans—nonprofits working in New York’s low-income neighborhoods. Contact Fund was supported by 59 high net worth individual investors and

had made 17 loans, but it did not enjoy foundation participation and lacked the scale to employ more than one full-time staff. The leaders of SeaChange and Contact Fund believed they would be more effective by working together; in 2013, SeaChange assumed the management of Contact Fund, and its founder, Mark Reed, joined the SeaChange board.

After joining forces with Contact Fund, SeaChange worked with its foundation partners to design a parallel fund that would address their specific governance needs. They jointly determined that the best structure would be a “pledge fund” collectivizing the sourcing, evaluation, structuring, and management of investments while leaving each participating foundation with the flexibility to choose whether or not to participate in each individual investment.⁴ The hypothesis was that such a structure, managed by SeaChange, would add value by:

1. Reducing transaction costs for foundations and nonprofits by collectivizing the sourcing, evaluation, structuring, and management of the underlying investments.⁵
2. Synthesizing financial, programmatic, and organizational expertise by creating a vehicle in which the participating foundations (and SeaChange) could pool their knowledge.
3. Dedicating more resources to origination (than any single foundation could) leading to a more robust pipeline of

investable opportunities.

4. Mitigating risk for foundations by creating a more diversified portfolio.⁶
5. Being responsive to nonprofit needs by being a nimble, discreet, and independent organization that understands their needs and the New York landscape.
6. Allowing participating foundations to be their own judge of whether, for them, a given investment represents an attractive balance of program-return and financial risk.

In early 2014, NYPRI launched with four foundations and SeaChange as the initial members and total capital commitments of \$4.1 million. Although it has since grown to 12 members, the basic structure has remained largely unchanged.

³ Most lending to nonprofits is done by the Community Reinvestment Act (“CRA”) “desk” of conventional banks or by Community Development Financial Institutions. In both cases, the underwriting differs very little from conventional commercial lending.

⁴ There was no pledge fund precedent for PRIs, but the structure has been common in conventional private equity since the 1980s. Although some intermediary structures can pose problems with PRI-eligibility, the NYPRI structure does not. We [suggested](#) that the IRS make this clearer in their guidance.

⁵ The structure has also allowed for greater utilization of pro bono legal services – a large costs saving.

⁶ A foundation investing directly would likely take a larger portion of a small number of investments.

NEW YORK POOLED PRI FUND LEGAL AND GOVERNANCE

NYPRI is a Delaware LLC that has elected to be treated as a partnership for tax purposes. As the Managing Member, SeaChange manages NYPRI and also participates in each investment as an investor.⁷ The other members are NYC-focused foundations who each, upon joining, make a minimum capital commitment to NYPRI, have the right to participate in each investment pro rata to their respective capital commitments, agree to cover their share of the operating costs, and appoint one person to the Members Committee. Although the decision to join NYPRI is made by the Board of the participating foundation, the subsequent approval of individual investments is delegated to staff or to a committee of the Board that can meet as needed to respond on a timely basis to nonprofit needs.

As a pass-through fund, NYPRI's members earn the returns of the underlying investments in which they have participated less the operating costs of the fund. Although NYPRI is always the single lender (i.e. the single counter-party on all the legal documents and point of contact for reporting, etc.), the profits and losses associated with each investment are allocated pro rata to only those members who elected to participate in it. These "participating members" fund the investment through capital calls and later receive distributions from the payments

received by the fund from the investment.⁸ Regardless of how many underlying investments a member has participated in, it holds only one NYPRI membership interest on its balance sheet and receives one K1 for tax and accounting purposes.⁹ While NYPRI is intended to be open-ended (i.e. perpetual), individual members may elect to withdraw from making new investments, and a supermajority of the members can remove SeaChange as the manager.

⁷ For more information see [SeaChangeCap.org](https://seachangecap.org). To request copies of the underlying documents email jmacintosh@seachangecap.org.

⁸ This is a simplification and ignores that capital can, if the member chooses, be recycled rather than distributed.

⁹ Holding a single investment on its balance sheet reported on with a single K1 considerably reduces each participating foundation's audit, accounting and legal costs compared with having made the underlying investments directly.



PROCESS: SOURCING, EXECUTION, MANAGEMENT AND WORKOUT.

NYPRI has evolved a seven-step investment process balancing the needs of nonprofits and funders while being appropriate given the nature of the underlying investments.

Origination: Most funding requests come through the SeaChange network of funders, nonprofit umbrella groups, borrowers and former borrowers, board members, other lenders, consulting clients, etc. Some opportunities are created when a nonprofit approaches SeaChange with a problem which is then jointly determined to be best addressed by an appropriately structured loan. NYPRI will consider loans to bridge government reimbursements, for expansion, to support real estate projects and for general working capital. Some of these opportunities take many months to co-create; in other cases, things must move very quickly in response to events (for example, another lender unexpectedly backs away, a property

seller requires a quick-turnaround deposit, etc.). Although SeaChange does not have a dedicated business development function, it raises awareness of its lending capability through participation in relevant forums and convenings.

Early Review: Once a request for funding has been received, SeaChange initiates a flexible assessment process. Although there is no standard template, a common set of general questions guide the initial assessment of the potential transaction through a written survey and/or follow-up phone call(s). Within a few hours of work, SeaChange has a general sense of the opportunity along several dimensions:

1. **Need and Impact:** What amount of financing is needed? What will it be used for? What impact will the funding allow the borrower to achieve? How will this help the nonprofit achieve its mission and serve New Yorkers?
2. **Partner and Alignment:** Would the nonprofit be a good partner for SeaChange? Does its leader understand the obligations associated with borrowing? Is it an organization that NYPRI members know and respect? How effective is the nonprofit's governance structure? Would it welcome SeaChange as an active partner over the course of the loan?
3. **Additionality:** Does the loan pass the “but

for” test? Would SeaChange—through NYPRI and/or Contact Fund—be a catalytic lender? What would happen if NYPRI's capital were not available? Are conventional lenders a viable option? If so, can SeaChange help the nonprofit access these more conventional financing sources?

4. **Risk:** What is the source of repayment? What are the associated risks? In economic terms, how would interest be paid—by philanthropy, earned income, asset sales, government, etc.?
5. **Feasibility:** What is the time frame for making the loan? What is the process? What third-party approvals are required? Are other lenders evaluating the opportunity? What co-investors might be interested if the amount required exceeds NYPRI/Contact Fund's resources?
6. **Structure:** What structure might satisfy the nonprofit's needs while also being acceptable to a critical mass of NYPRI's members in terms of maturity, security, repayment schedule, interest rate, etc.? What forms of security are available and appropriate?

Based on the preliminary review, if SeaChange judges the opportunity to be of sufficient interest to merit further consideration, it circulates a short summary of the opportunity to the members (the “Early Indication Report” or “EIR”). The EIR presents the

opportunity in a dispassionate way; it is not a recommendation or a “selling” document. Based on the EIR, each NYPRI member (and Mark Reed on behalf of the Contact Fund) indicates its level of interest in participating in the potential loan: “Green”—very interested, subject to confirmatory due diligence; “Yellow”—potentially interested but with specific questions to be addressed; “Red”—not interested. SeaChange can usually gauge the overall level of interest (both the number of members interested and the total dollar amount) within 5-7 days based on email responses and follow-up phone calls. The EIR also provides an opportunity for members to share what they know about the nonprofit, the program area, etc.

Detailed Review: If there appears to be sufficient interest, SeaChange creates a term sheet and secures pro bono legal counsel.¹⁰ Once the terms are agreed with the nonprofit, SeaChange enters into a formal due diligence phase (usually 3-4 weeks) while also drafting the credit agreement and any other required legal documents. SeaChange strives to be able to complete due diligence and be in a position to close within 30-45 days from the signing of the term sheet, subject to formal approval from the participating members. Due diligence generally includes a review of documents, interviews with board members and third parties, site visits, etc. Members

that indicated an interest in participating are kept apprised of any material issues—positive or negative—found in due diligence and the likely timing of the closing. The members do not, other than in exceptional circumstances, elect to review the legal documents and seldom participate directly in due diligence.

Approval and Execution: If due diligence is satisfactorily completed, SeaChange circulates a formal investment recommendation to the members who had indicated an interest in participating. In most cases, they reaffirm their initial indication. If there is more interest in participation than the capital required, SeaChange makes larger allocations to those members willing to lend at lower rates. Capital calls are sent to the participating members, and once the funds have been collected, the loan is closed. Participating members are given the choice to remain anonymous to the underlying borrower.

If the loan is larger than NYPRI/Contact Fund can fund on their own, SeaChange seeks co-investors and encourages participation in a cost-effective way by offering to share due diligence materials, use the same legal documents and legal counsel, and service the co-investor’s loan.

Portfolio Management: SeaChange remains actively engaged with each

borrower over the course of the loan through regular communication and by having a representative serve as an observer on the finance committee of the board. SeaChange has taken steps to mitigate the potential conflict of interest which this might pose in certain circumstances, though it has not been an issue in practice. In fact, borrowers generally find it helpful.¹¹ The observer role keeps SeaChange informed about the operational and financial conditions, and the decision-making of the borrower in a more effective and efficient way than would be achieved solely through written reports. The representative often brings a broader perspective into the committee discussions because SeaChange has more direct nonprofit experience than most other committee members given its full-time involvement in the sector. The observer role, together with a modest amount of formal reporting, allows SeaChange to keep the NYPRI members informed on a quarterly basis and to confirm that each investment continues to be charitable and consistent with the PRI requirements.

In situations where adverse developments make it unlikely that the nonprofit will be able to repay its loan on schedule, or would be irreparably damaged by doing so, SeaChange works to balance the needs of members and the nonprofit. Restructuring decisions—extending maturity, deferring

payments, reducing the interest rate, partial forgiveness, etc.—are made in consultation with the participating members.

Exit: When a loan has been fully repaid, the proceeds are distributed to the participating members, and SeaChange writes a final investment review which attempts to judge how the investment fared—programmatically and financially—compared with the original expectations that were agreed by SeaChange and the borrower as part of the initial assessment.

¹⁰ SeaChange works with a set of leading firms. The selection is based on their availability, any concurrent work they may be doing with SeaChange, and any pre-existing relationships which might represent a conflict.

¹¹ The observer-based approach to portfolio management started in 2017. To mitigate potential conflicts, the borrower and SeaChange have the right to end the observer relationship if it proves problematic, and each meeting has a period when the SeaChange observer is not present.



ECONOMICS

NYPRI’s target rate of return—after all costs including credit losses—is zero, reflecting the risk-return realities of the nonprofit need it was established to address.¹² However, the opt-in model allows each member to target a different balance of risk and return both in aggregate and with respect to individual investments. In fact, members have made very different choices and are attracted to different, though overlapping, opportunities.

Fund Summary as of 12/31/2020	#	Total \$	Min	Max	Median
Members & Commitments	12	\$19.3 million	\$200,000	\$6.0 million	\$1.0 million
Loan Volume ¹³	19	\$16.1 million	\$120,000	\$1.5 million	\$500,000
Interest Rate on Loans			0%	12%	4%
Loan Duration (Years)			1.0	8.0	4.0
Members per Loan (a)			2	6	4

(a) The number of members opting in per loan including SeaChange.

Operating Costs (2021E):	\$	% AUM
Staff Costs	\$150k	0.9%
Infrastructure	\$25k	0.2%
Total*	\$175k	1.1%
% Staff	85%	
FTE	.8	
Note: In-kind Legal Support	\$232k	1.4%

*Actual costs in 2020 were \$141k but 2021 is adjusted for salary and staffing increases. Infrastructure includes audit, accounting, insurance and out-of-pocket legal. No costs have been capitalized into the loans. Operating costs, though lower in absolute terms, were higher as a percentage of AUM in the early years of the fund. To date, there have been no credit losses, though a 5% reserve is taken on all loans at closing.

Operating costs are low—in absolute terms and as a percentage of assets—for three reasons:

- I. **Activity-based staffing as part of SeaChange:** As part of SeaChange, NYPRI does not need dedicated staff. When things are busy, up to three team members are available to work on NYPRI but during quieter periods, their time is spent on other on other activities;
- II. **Cost-based fees:** SeaChange is a nonprofit that manages NYPRI to advance its charitable mission. It does not seek to make a surplus on the activity but only to recover its costs; and
- III. **Pro bono legal support:** NYPRI

enjoys pro-bono legal support from several leading New York City law firms without which costs would more than double. Pro-bono requirements can be difficult to meet for lawyers working in the credit groups of leading firms. SeaChange’s staff have decades of collective experience working with lawyers and understand how to make their pro-bono work practical and satisfying while still progressing transactions promptly and professionally.

Operating costs are important to the financial performance of NYPRI’s portfolio of low-interest, high impact loans. Although

these costs can be easily “hidden”—capitalized against loans, recovered in fees from borrowers, or paid for by foundations without separate tracking—they are real, and they reduce the amount of philanthropic resources available to underlying nonprofits.¹⁴ NYPRI is designed to make the costs explicit and keep them low.

¹² SeaChange originally proposed a target of minus 20% on the basis that these opportunities could be considered as grants with an 80% rebate; there was little enthusiasm among potential funders.

¹³ Excludes the investment in the loan portion of the [NYC COVID Response & Impact Fund](#).

¹⁴ Subsidized real estate projects often allow lenders to recover their costs through fees reimbursed by the government. The lack of incentive for lenders to be efficient is part of why transaction costs can be so high.



ASSESSMENT

In 2019, SeaChange engaged Richard Henriques to assess NYPRI and suggest how it could be improved and to explore whether it might be a replicable model for others to consider.¹⁵ Richard has deep experience with PRIs as the former Chief Financial Officer at the Bill and Melinda Gates Foundation and, as a Senior Fellow at the [Center for High Impact Philanthropy](#), has done research about the barriers foundations face when seeking to make them. Richard reviewed documents, observed NYPRI “in action”, and had 15 confidential in-person interviews with SeaChange, NYPRI members, and borrowers. Below is a summary of his assessment.

1. SeaChange’s reputation as a trusted intermediary has been critical to NYPRI’s success.

SeaChange has built visibility and credibility in the sector based on individual relationships with numerous New York City foundations and trust on the part of nonprofits. They are viewed as sector advocates with an entrepreneurial, analytical team with strong deal structuring skills. There is a culture of mutual respect, collaboration, teamwork, problem solving, and a passion for building a strong nonprofit sector. Nonprofits and members trust SeaChange for several reasons. First, there is an alignment of financial interests: SeaChange contributes capital to every deal and provides all transactional support with transparent, activity-based fees. Second, the SeaChange team is mission-driven, highly competent, professional, and accountable in financial transactions and the economics of each deal, where knowledge of the nonprofit space is critical. Third, SeaChange does not advocate for any given loan or nonprofit. It presents the facts and associated

analysis, leaving the members to determine whether it is a fit. Finally, and most importantly, SeaChange is discreet and protects confidential information thereby creating a safe space for nonprofits seeking debt financing and value for members, given the often private and personal nature of philanthropy.

2. The Fund has created value for the borrowers by providing appropriately structured loans that would otherwise be unavailable while working in a respectful and problem-solving way.¹⁶

Interviews with borrowers suggest that the loans made by NYPRI were not available from traditional sources or, if available, would not have been timely or cost-effective. The principal reasons are the lack of security, quick turnaround, small size, or the need for non-traditional structures.

The interviews also reveal several common themes regarding their experience with NYPRI:

- **Quick turnaround and transparent process:** The structure of the fund—preliminary review/due-diligence formal recommendations/non-calendarized approvals—allows for quick turnaround and transparency with respect to where the process stands.

- **Understanding:** SeaChange has an appreciation of the challenges facing the borrowers and an understanding of the roles of board and staff.
 - **Appropriate due diligence:** The due diligence process, while rigorous, is appropriate given the size of the loans and the capacity of the borrowers.
 - **Creative solutions:** SeaChange works creatively to find structures that work for the borrower while also being attractive to the members. These have included the refinancing or purchase of existing debt, revenue-based repayments, credit enhancement from board members, and flexibility with respect to security, duration and rate.
 - **Opportunity to build relationship with members:** While SeaChange stands between the members and borrowers, they have opportunities to build new relationships with one another through informal events.
 - **Partners in adversity:** When things do not go as planned, SeaChange works to balance funder and nonprofits needs through extensions, rate reductions, etc.
- ## 3. The Fund has created value for the members by reducing the barriers to PRI-making while leaving them with decision-making and connection.
- **Commitment and Control:** The ability to opt in or out creates an opportunity

(and requirement) for members to get involved first-hand in investments. This builds commitment to NYPRI compared with more passive investing into a commingled pool. The practice of making a commitment and calling capital only when needed for investments also keeps surplus funds with the members, reducing the amount of idle, uninvested cash. The NYPRI structure also makes it easier for members with limited PRI experience to join the fund because they can start with a limited commitment, which they can grow over time if the investments presented are deemed attractive.

- **Strategic Deployment:** The members see their loans—through NYPRI—as just one tool to help nonprofits, not as a separate, siloed effort. SeaChange is always asking, “Would a loan solve this problem or address this challenge? Could we structure a deal which meets everyone’s objectives?” This approach enables SeaChange to identify when a loan is appropriate (i.e. when there is a financial challenge versus a program challenge) and when the nonprofit might better address its challenge in a different way (e.g. raise more grants, sell its real estate, restructure, start an earned income activity, revamp the board, etc.).
- **Reduced cost and complexity:** SeaChange brings due diligence, deal

structuring and portfolio management skills that would be difficult for medium-sized foundations to staff in-house and are inconsistent with their primary needs. SeaChange presents complex financial structures in a way that resonates with both program staff and the more financially oriented staff and trustees that are often involved. Although multiple members participate in most investments, the NYPRI structure allows for one set of legal documents, one set of reports, and obviates the need for members to have any internal PRI capability other than to fund capital calls and receive distributions.

- **Diversification:** While NYPRI does not change the risk of the underlying investments, it spreads the risk over multiple members who thereby end up with a more diversified PRI portfolio than if were they to invest directly. The ability to opt in or out of each investment allows each member to dictate its own level of risk and to focus in the areas most aligned with its mission.

Most importantly, by facilitating more PRI-making by its participants—only two of which had made any PRIs before joining the fund—NYPRI has provided incremental capital to nonprofits that would not otherwise have been available.

On balance, the assessment suggests that SeaChange has met the six goals

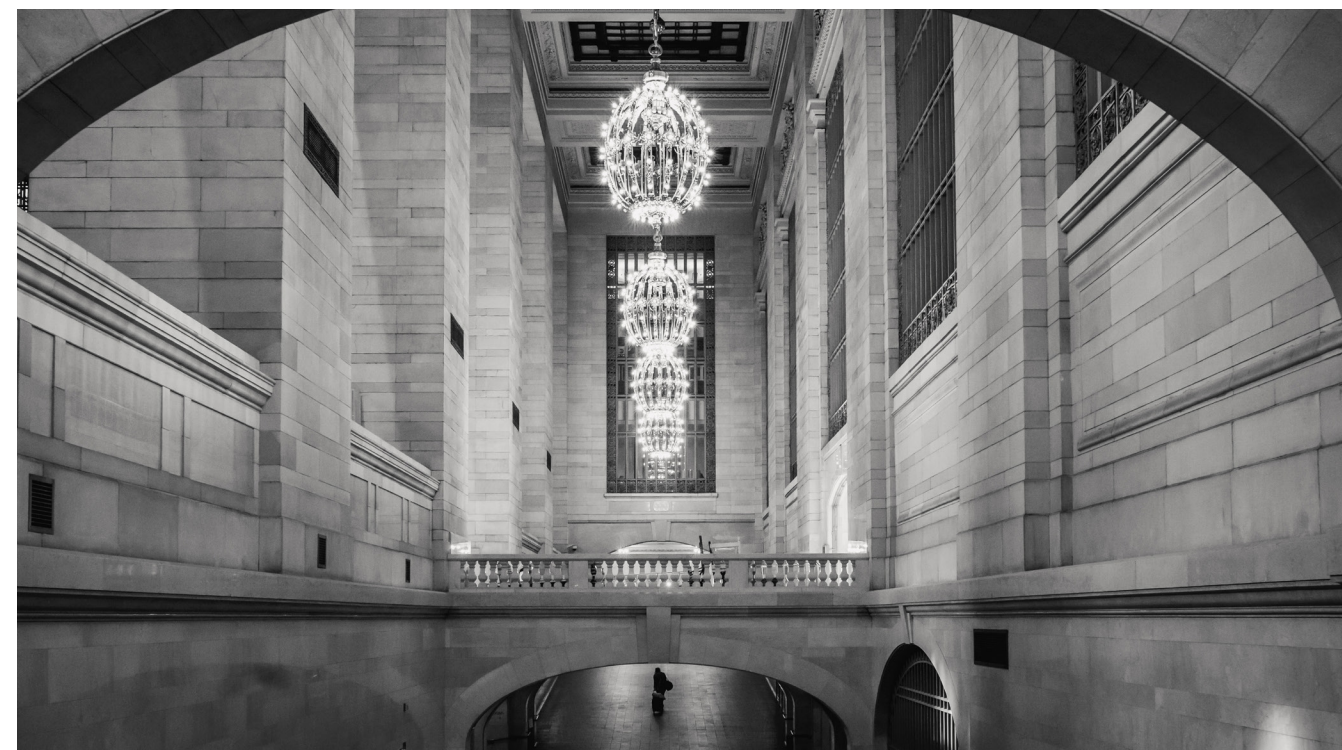
(listed earlier) it articulated for NYPRI at inception. In addition, being active as a lender has proven complementary to the other ways SeaChange supports nonprofits. In some situations, a single relationship has—over time—led to a loan, a grant and consulting engagement. Insights gleaned from lending has also informed a number of SeaChange’s [reports](#). Overall, it has become a critical and integral part of the SeaChange offering.

The review also suggested several areas for potential improvement: dedicating more resources to business development; simplifying the relationship between NYPRI and Contact Fund; broadening the range of investments to include guarantees, longer term loans, equity

investments in social enterprises and for-profits; and offering more technical assistance to borrowers. SeaChange has assessed these recommendations and has a plan for addressing each one. In particular, SeaChange has established the New York Impact Opportunities Fund (“NIO”) as a sister fund to NYPRI. NIO has the same structure but will pursue a wider range of impact investments including those which, while mission aligned, may not qualify as PRI.

¹⁵ Evaluation of social impact was not the goal of this project, however, based on anecdotes from the interviews, the loans helped each borrower achieve its objective.

¹⁶ The following anecdotes are based on interviews with four nonprofit recipients of NYPRI loans.



NYPRI AS A MODEL FOR REPLICATION

The CHIP 2016 paper titled [“Program-Related Investments”](#) published by the Center for High Impact Philanthropy explored the barriers for private foundations making PRIs. The NYPRI approach—shown below in italics—would seem to address the four barriers identified in that paper:

- *“Foundation board members and management often lack sufficient understanding and appreciation of how PRIs and MRIs can enable programmatic success. For example, the traditional focus is often on grant making and maximizing return on the endowment.”*

The SeaChange team has strong relationships with foundation leaders and a deep understanding of foundations and how to work within their missions and strategies. By building confidence and trust, they can explain the circumstances when a loan makes more sense for a nonprofit than a grant. The opt-in feature is a key enabler for foundations to be comfortable, as they reserve the right to not participate in a specific transaction.

- *“Internal foundation processes, resources and expertise may not be appropriate or sufficient to implement a PRI or MRI. For example, most foundation staff have little or no experience or training in financial due diligence required to execute a PRI or MRI.”*

The SeaChange team fills the gap in expertise not held by private foundation staff. Their capacity and capabilities dovetail with those of program staff, and they are fluent in the language of finance and philanthropy. Their culture, competence, and ability to communicate complex financial concepts help give the foundations confidence to invest in mission-appropriate projects.

- *“In order to execute a PRI or MRI, foundations must navigate a complex system. Currently, this system is characterized by weak financial and social outcomes data, often unclear legal guidance, and advisory services that are relatively new and may not be completely effective in sourcing and executing PRIs and MRIs.”*

As NYPRI’s managing member, SeaChange focuses on mission, deal execution, and portfolio management. It has evolved an efficient, streamlined process over the years. The cost structure is very low, and it has engaged legal support on a pro bono basis. While SeaChange could have offered some

of this as a paid “advisory service” to foundations, playing the role of fund manager has been a more successful approach and more consistent with SeaChange’s charitable purpose.

- *“Specificity of program goals can limit the range of investing opportunities. For example, based on the Mission Investors Exchange database, of the \$1.3 billion invested between 2010-2015, just 12% of the PRIs and MRIs was directed towards education. Therefore, a foundation focused on education may be limited to a similarly narrow spectrum of opportunities.”*

NYPRI is specifically focused on New York City and on the arts, social service, community development, and education organizations that benefit low income and disadvantaged populations. This breadth convinced a critical mass of foundations of the advantage of participating in the fund.

On this basis, NYPRI would seem an ideal structure for others to consider replicating. However, there were several enabling pre-conditions to NYPRI’s success:

- NYPRI was built upon pre-existing relationships. Contact Fund and NYMAC were important antecedents to NYPRI. The trusting relationships built and nurtured by SeaChange and Contact

Fund with nonprofit organizations and private foundations before NYPRI was launched were critical to its launch and early success. NYMAC members were the early champions for NYPRI; other members found it easier to join something that was “up and running” than they might have at the start particularly because there was no precedent for a pass-through, pledge-fund structure to facilitate PRI investing.¹⁷

- The NYPRI members have overlapping missions, and many have relationships outside of the fund. NYPRI was built on preexisting trust among many of its members. They already knew each other and had confidence that they had overlapping missions. This has been critical to building investor commitment even though investments are seldom discussed as a group. New York is also large enough that the fund was able to attract a critical mass of members.
- NYPRI is managed by a mission-aligned entity (SeaChange) which uses lending (through NYPRI/Contact Fund) as just one of a number of strategies to pursue its charitable purpose. Attractive PRI opportunities are by nature episodic. Sometimes there are many opportunities, sometimes things are quieter, sometimes a PRI is the right approach for a nonprofit but often it is not. The manager must have the ability to flex its staffing

and consider other tools (e.g. grants, consulting, research) as well.

- NYPRI works with pro bono legal counsel. Given the modest loan size, it is very hard to pay for high quality legal support without a material adverse impact on the underlying economics or burdening nonprofits borrowers with excessive fees. While using standardized, “off the shelf” documents might reduce costs, it would preclude flexibility and creativity in structuring.¹⁸

In light of this, it may be difficult to replicate the New York experience in other cities, given the size, number, and relative strength of its philanthropic resources. However, it would be surprising if there were not a few places or sectors where NYPRI’s opt-in approach could help get more money flowing from foundations that are interested in PRIs but have not yet been enticed by the more traditional blind-pool or consultant-led approaches. Funders interested in trying to replicate NYPRI should identify (or build) a trusted intermediary with a small, talented and passionate team, with strong finance backgrounds. This might be a partnership-support organization of the community foundation, a consultant active in the local area or sector,¹⁹ a family office with direct investment experience, or an existing CDFI looking to expand the range of investments it can consider. A local foundation active

in PRI might even consider “sharing” this capability with others working the same geography or sector.

Alternatively, an intermediary with these characteristics interested in creating a NYPRI-type entity should work to identify a group of foundations with overlapping interests in same geography or sector including one or two “champions” willing to provide seed funding and then actively advocate for the fund with other local philanthropists. It should also seek to identify law firms willing to support this type of work at reduced cost or pro bono.

The increased interest in various forms of impact investing should translate into more place- and sector-based investments in nonprofits. There are moments when access to risk tolerant capital is vital for a nonprofit’s success, including the smaller,

community-based organizations that have traditionally been unable to access loans from conventional lenders. Foundations interested in using their balance sheets to support these organizations should consider NYPRI’s opt-in approach as one way to do it.

¹⁷It is not clear that there are any other funds with this structure. Most are fully-commingled or are “funds” in name only with the participants investing directly while sharing some diligence and reporting.

¹⁸This is part of why traditional lenders shun these loans. Real Estate loans are larger and the costs are often “rolled up” and paid, in effect, by government entities. Larger foundations maintain in-house legal counsel which help defray these costs or they may consider these costs as “fixed” and ignore them when considering the risk/return of their PRI-making. NYPRI will close loans without counsel in small and straightforward situations.

¹⁹A consultant running a multi-funder, collaborative (for example, the [New Mexico Impact Investing Collaborative](#)) might be well positioned to convert the project into a pooled fund.



APPENDIX

NYPRI Members

Altman Foundation, The Carroll and Milton Petrie Foundation, The Clark Foundation, The Heckscher Foundation for Children, Jennifer and Jonathan Allan Soros Foundation, The J.M. Kaplan Fund, The New York Community Trust, The Thompson Family Foundation, Lily Auchincloss Foundation, Mertz Gilmore Foundation; Anonymous Foundation

NYPRI Borrowers

ArtsPool, Asian Americans for Equality, Bowery Residents' Committee (Landing Road), Brooklyn Community Bail Fund (2), Brooklyn Community Services, Brooklyn Historical Society, Bushwick Starr, City School of the Arts, Community League of the Heights, Children's Village, CommonShare, Corbin Hill Food Project, Cypress Hills Child Care Corporation, Gibney Dance, Greater Jamaica Development Corp, JOE NYC, LISC Creative Economy Fund, NYC COVID-19 Response & Impact Fund, Per Scholas, The Equity Project Charter School, The Flea Theater, Turning Point Brooklyn, Westhab Inc.

For more information on NYPRI, please reach out to Taj Tabassoom at ttabassoom@seachange.org.

Background Reading

[Program-Related Investments: Is there a Bigger Opportunity for Mission Investing by Private Foundations?](#)

[Investing Together: Emerging Approached in Collaborative Place-Based Impact Investing](#)

[Leveraging the Power of Foundations: An Analysis of Program-Related Investing](#)

Our appreciation

SeaChange would like to thank five people without whom NYPRI would never have been launched: **Mark Reed** for showing us what high-impact lending to nonprofits looks like; **Reuben Leibowitz** for validating the pledge-fund structure; **Peter Sloane** for being our venture philanthropist; the team at **Davis Polk** for their time and creativity; and **Jeremy Tennenbaum** for working tirelessly through the details.

We'd also like to thank **Bridging Virginia, Amalgamated Bank, FJC, Open Road Alliance, Mission Driven Finance, Western New York Impact Investment Fund**, and many others for being fellow travelers who have been willing to share their insights along the way. Finally, to all our borrowers and funders – thank you – it is a privilege to be your partners in this work.