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Dennis Price

Investors that demonstrate flexibility and patience prove catalytic in COVID crisis

Sallie Calhoun, RSF client | Photo credit: RSF Social Finance

ImpactAlpha, May 5 – Forgiveness and patience are rarely taught in business schools as crucial investment tools.

But such flexibility has become essential as impact investors navigate the new landscape of business shutdowns, lost revenues, supply-chain disruptions and market upheaval that has accompanied the COVID pandemic.

And because the restructuring of loan payments and other terms by itself doesn't require new infusions of capital, impact investors can demonstrate another characteristic that is all too rare in finance: speed.

With businesses and individuals under pressure from traditional lenders, impact investors are leaning into their relationships to stand by their portfolio companies. The risk analyses of mission-aligned investors are apt to include the potential loss of the positive social impact of the companies they have supported. That makes patience and flexibility a form of "catalytic capital" that can generate, or at least preserve, both financial and social returns.

Flexible terms

At RSF Social Finance, investors recognized in late March that COVID-related shutdowns were beginning to disrupt portfolio enterprises in food and agriculture, arts and education, climate and the environment and economic justice. RSF staff meets quarterly with investors and borrowers to price the interest rate for the upcoming three months.

At their spring meeting, investors agreed to reduce the return on their capital – from 1% to half a percent. Individual, family office and institutional investors in the RSF Social Investment Fund agreed that if they took slightly less of a return, RSF could help more enterprises weather the crisis.

Half of the reduction, that is, 25 basis points or a quarter-percentage point, went to lower the interest rate paid by all borrowers in the portfolio. The other half of the reduction supports a Crisis Response Fund to enable RSF to quickly deploy grants to companies in immediate need.

"Because we do lending, giving and investing under one roof, we have room to be flexible, creative and nimble," RSF's Deb Nelson told *ImpactAlpha*.

The California Endowment likewise extended interest forgiveness on loans for six months across its entire program-related investment portfolio. "We know that you all will make great use of these funds to support our vulnerable populations and all the dedicated nonprofit organizations supporting them," the Endowment's Amy Chung wrote to borrowers in an early April email shared with *ImpactAlpha*. Chung says many of the foundation's borrowers, including community development finance institutions, were already moving to support low-income populations amid the crisis.

The California Endowment's move was unsolicited, making it "just a powerful act of solidarity," tweeted Antony Bugg-Levine of Nonprofit Finance Fund, one of the borrowers. "Can't overstate the emotional impact of being seen, respected in this way."

Chung said the endowment did indeed want "to stand in solidarity" with its borrowers. "We wanted to provide them immediate relief," she said.

Kellogg Foundation is among the other foundations similarly deferring interest and principal payment deferrals for its PRI loan borrowers. In addition to eliminating interest, the Mary Reynolds Babcock Foundation is extending the maturity of PRI loans due this year and converting 20% of its investments in CDFI loan funds into grants for operating support.

Even small funds have found that loan-extensions can be powerful tools. Jobs for the Future has about a half-dozen venture debt investments in its portfolio of education and workforce tech companies serving lower wage and low and mid-skill workers. When COVID hit, Yigal Kerszenbaum, who leads JFF's impact investing fund, deferred interest on loan payments for two quarters immediately.

"I want you guys to spend that time and energy and money supporting your communities, your staff and your businesses," Kerszenbaum says he told the entrepreneurs. In a LinkedIn post, JFF urged other like-minded investors to act as well.

JFF's operating budgets takes a hit from the interest deferrals. Kerszenbaum says he's confident investees "will work harder to pay us back later on down the road when they can."

Beyond debt

Fund managers and limited partners are being asked to be flexible by borrowers who themselves are extending forgiveness to communities in need. HOPE, a credit union and community development financial headquartered in Jackson, Mississippi, is reducing interest rates and letting borrowers defer loan payments without accruing additional interest.

The women of color-led CDFI is supported by Candide Groups's Olamina fund, which lends to intermediaries serving Black and Native communities. Olamina initiated a six-month interest payment deferment option for all of its borrowers.

Another Olamina borrower, the New Hampshire Community Loan Fund, serves rural residents of cooperatively-governed manufactured housing parks. The woman-led CDFI is providing at least a three-month payment moratorium for anyone who needs it and expanding services such as legal aid and counseling.

Impact investors are loosening terms outside of loans as well. Nico, the neighborhood investment company, in Los Angeles, introduced a rent assistance program for residents and commercial tenants. Nico made up to 100% of security deposits available for use towards April rent and committed another $150,000 itself in rental assistance.

The real estate company, which allows local residents to buy into its hyperlocal property portfolio, is also offering each family unit or business who either remains current on rent or opts into the rent assistance program a one-time grant of shares in Nico Echo Park, Benefit Corp. of $1,000.

Even equity impact investors can be flexible in the crisis, says Bruce Campbell of Blue Dot Advocates. To allow one client to apply for a forgivable loan from the U.S. government's Paycheck Protection Program, an investor relinquished a board seat to help get the company in compliance with the program's rules.

Impact investors have an interest in keeping people employed and giving companies a longer runway to keep their business – and impact – going, Campbell says.

He told *ImpactAlpha*, "They should at least be giving it more consideration than conventional investors would."

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