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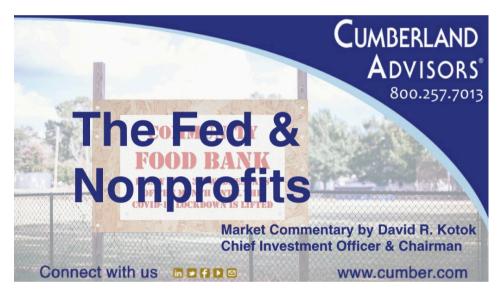


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The Fed & Nonprofits

David R. Kotok Wed Jul 22, 2020

The extraordinary and massive COVID-19 economic shock has triggered another first-time action by our nation's central bank. The Fed now has expanded a facility directed at lending to nonprofits. Among those nonprofits targeted are "educational institutions, hospitals, and social service organizations." Here's the link to the July 17 press release announcing the modification of the Main Street Lending Program: <u>https://www.federalreserve.gov/newsevents/pressreleases/monetary20200717a.htm</u>.



This remarkable program deserves applause. Early in the pandemic, the Fed realized that the demand for the services of nonprofits and the requirements to provide those services were rising rapidly while their revenues were falling. Many don't normally think of nonprofits in economic or market-impact terms. We often take them for granted until we personally observe a need for them. Some immediate examples are hospitals and food banks. In April 2020, the Federal Reserve surveyed nonprofit organizations, financial institutions, government agencies, and other community organizations across the US to assess how organizations and the communities they serve were faring as the COVID-19 pandemic developed. Here's a link to the Fed's April survey: https://www.frbatlanta.org/-/media/documents/community-development/publications/federal-reserve-system-resources/05/04/perspectives-from-main-street-the-impact-of-covid-19-on-communities.pdf. Note that there were 3899 responses and that all twelve Federal Reserve district banks and the Board of Governors were involved.

Here's a link to an interview between Georgia Grantmakers Alliance director Lydia Clements and Federal Reserve Bank of Atlanta president Raphael Bostic, in which Bostic outlines the Fed's responses to Covid-19 and offers some of the findings from the survey and the requirements to support nonprofits: <u>https://www.youtube.com/embed/EWIj8iNV6QU&feature=youtu.be</u>. In Sarasota, Florida we're in the Atlanta Fed's district and can personally attest to the need for nonprofit's services as this COVID-19 forest fire rages around us.

And here's a link to a research study from the San Francisco Fed which delves into the concerns for communities and nonprofits in the western region of the United States: <u>https://www.frbsf.org/our-district/about/sf-fed-blog/nonprofit-concerns-covid19-coronavirus-pandemic/</u>. Readers will note that the San Francisco Fed's regional geography is huge.

Time will tell how well the Fed's new program works. This expanded program is truly unique in the Fed's history. The Fed had to develop the program from scratch and without any precedents. There may be issues with governance conditions in nonprofits as they accept the scrutiny that goes with a borrowing that accompanies a program originating with the federal government through the use of taxpayer funds. In our view, this added scrutiny is needed. The state of governance in nonprofits varies widely from high standards of accountability excellence to appalling misbehavior and cronyism management. Remember, nonprofits do not have

regulatory conditions Like ERISA over employee retirement funds or the Securities & Exchange Commission over investment advisors. Example: how many nonprofits have you seen that report results of their endowment investments using GIPS procedures?

Please note the details in the new term sheet available from the link at the bottom of the Fed's press release. Note the 5 year amortization is "back loaded". Note the breakdown of revenue so that the Fed has a process to estimate repayment of the loan. Part of the design challenge was to separate recurring non donor based revenue from the philanthropy. It is a hard "ask" to seek a contribution from a donor to repay a loan.

Please note the interest rate of 300 basis points over LIBOR. There are two observations to make here. For some non-profits, there may a cheaper market access since certain organizations have the ability to issue tax-free bonds. Experience will reveal if there is an adverse credit selection bias in this program. The second observation is very technical. The Fed anchored the interest rate with a floating formula to LIBOR. Why didn't it use SOFR? Was this just an oversight? Will loan documents allow for the transition from LIBOR to SOFR as the reference rate?

COVID-19 continues to trigger huge alterations from what we have considered to be the norm. We have seen the Fed's balance sheet grow to unprecedented size. We have seen the creation and deployment of new programs unlike anything previously imagined. And we do see a responsible central bank rising to the national purpose to assist the United States with its lending tools. Just as it has in the past when the nation was attacked, whether in WW2 or after 9/11, the Fed has quietly and without any blame-game political rhetoric done what it can to keep the American economy and its citizens in better shape than it and they might otherwise be.

We applaud the Fed for this creative approach to helping nonprofits, whose roles in the COVID-19 fight are now critical to our survival.

P.S. For those in the Sarasota-Bradenton area, there is now an acute need for blood. The SunCoast Blood Centers site and map of their locations is here: https://donor.scbb.org/donor/schedules/geo. Another is One Blood, and their site is: https://www.oneblood.org/donate-now/ They will administer a COVID-19 test and an antibody test, with results in minutes. If you have antibodies and are willing to donate blood, they will organize that promptly. Sarasota Memorial Hospital and other area hospitals are able to treat COVID-19 patients with convalescent plasma, so your pint of blood can literally and quickly help save a person's life. Sarasota Memorial is a nonprofit. The blood banks are nonprofits. They are critical examples of nonprofits at work saving lives. Please help if you can.

David R. Kotok

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