

Borrowing Opportunities for an Endowment or Foundation



Borrowing can be used for offensive as well as defensive purposes. Typically, it takes the form of a Letter of Credit or borrowing under a Securities Lending Agreement.

Research has shown that Endowments will often use lines of credit offensively to fund private equity capital calls. It enables better cash management and investment timing. Smaller Foundations tend to use lines of credit for that same purpose. Foundations also use Securities Lending defensively to avoid selling “underwater” equity positions to fund current grant making. This can make sense if the Foundation views itself as a perpetual investor and the equity sell-off is considered a temporary or short-lived phenomenon. (One should ensure that the Foundation’s governing documents either enable or do not preclude borrowing.)

Lines of Credit – Typically arranged with a bank and often is uncollateralized.

Securities Lending – Collateralized borrowing is an active part of the financial markets and many market players engage in this type of lending to boost returns.

We envision Securities Lending as a defensive means for Foundations or Endowments to avoid selling “underwater” equity positions rather than “locking-in” a loss. Securities Lending agreements are highly standardized and sample templates are available on the Internet. (You should of course use your own legal counsel) but the internet documents do provide the reader with a sense of the wide use and standardization that exists.

Goal – If the entity has a perpetual time horizon and believes that the equity markets typically rebound within a 2- or 3-year future time horizon, borrowing may make long term sense.

Collateral – Typically one would pledge securities that would be placed with a custodian. (Securities may need to be “aged”, i.e. fully paid for and have been held for a minimum time period, e.g. 1 month, prior to pledging.) The advance rates would be based on the specific assets pledged. Typically, the rate would be Libor + a spread.

Want to learn more? Please contact Chris Cutler or Tom Donahoe

