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MEMO

To: Board of Trustees
From: Nick Williams, CFO
Date: December 2, 2025
Re: Impact Investment Forgivable Loan Policy

At its November 6th meeting, the Impact Investment Committee discussed incorporating forgivable loans as a tool within the Foundation's Impact Investment program. The Committee expressed interest in establishing a formal policy to guide the use of such loans.

A forgivable loan is a funding mechanism commonly employed by Impact Investment programs to support charitable initiatives, nonprofit partners, or community-focused projects, wherein repayment may be partially or fully waived once specified conditions are met. This approach is intended to support organizations and projects that advance the Foundation's mission, strategic priorities, and commitment to equitable community development. Forgivable loans enable the Foundation to catalyze initiatives that deliver tangible community benefits while ensuring that funds are allocated toward measurable outcomes. This tool also allows the Foundation to respond efficiently to urgent community needs.

In instances where conditions are not met and repayment occurs, funds can be recycled, promoting prudent stewardship of resources while continuing to support charitable objectives. The policy establishes parameters regarding the types and frequency of forgivable loans the Impact Investment Committee may authorize, ensuring the responsible and prudent use of this mechanism.

The proposed policy was developed collaboratively by staff and committee members following a review of forgivable loan programs at peer foundations. It has been approved by the Impact Investment Committee and is now submitted for consideration and approval by the Board of Trustees.

Forgivable Loan Program Policy

Adopted by the Impact Investment Committee of the Albuquerque Community Foundation

Effective Date: 11/18/2025

Purpose Statement

The Impact Investment Committee (“IIC”) of the Albuquerque Community Foundation (“the Foundation”) may from time to time make forgivable loans to internal funds or committees of the Foundation (“Internal Funds”) when doing so serves both the Foundation’s broader charitable mission, the public interest and maintains prudent stewardship of the Foundation’s assets. Such loans enable the Foundation to respond flexibly to urgent community needs (for example, shortfalls in community-nutrition programs) and leverage its capital beyond traditional grantmaking.

Loans made under this policy are subject to the terms here described, and when the specified conditions are met, the outstanding principal may be forgiven. This program supports organizations and projects that align with the Foundation’s mission, strategic priorities, and commitment to equitable community development.

1. Scope and Eligibility

- a) This policy applies exclusively to loans made by the IIC to Internal Funds of the Foundation (not to external borrowers).
- b) Such loans will only be considered when the Internal Fund proposal:
 - Aligns with the Foundation’s broad mission and falls within the narrower scope of the IIC (i.e., impact investing, social return, community benefit)
 - Addresses an urgent or emergent need (e.g., shortfall, gap financing, emergency response)
 - Is accompanied by a clear use-of-funds statement and measurable deliverables/output where feasible.

2. Proposal & Screening Process

a) Preliminary Screening

- While a full staff screening is preferred, proposals may arise spontaneously at an IIC meeting without prior notice. In such cases, the committee may proceed directly to decision-making, relying on available information.
- Staff should, as resources permit, prepare a memo outlining: mission alignment, purpose clarity, financial need/urgency, proposed amount and terms, and legal/tax risk assessment.

b) Required Screening Criteria (either via staff memo or committee discussion) include:

- Mission alignment (Foundation + IIC)
- Purpose clarity (how the funds will be used, by when)

- Financial need / Urgency / Proposed loan amount
- Terms and structure (interest rate range 0-5%, repayment schedule)
- Forgiveness triggers (see Section 4)
- Risk assessment (including legal/tax implications, staff certification)
- Fund usage parameters: Internal Fund manager must define the geographic/population scope, eligible recipients (if applicable), timeframe for disbursement.

3. Limits & Frequency

- a) The IIC shall not approve more than two such Forgivable Loan transactions or more than \$200,000 in any calendar year unless a specific vote of the committee lifts this cap.
- b) The maximum term of any loan under this policy shall be five (5) years, with repayment options (monthly, quarterly, or semi-annually) as recommended by the Foundation's staff.
- c) Interest may be set at 0% to 5% depending on the urgency, risk, and programmatically appropriate return; if the loan is forgiven, interest may be negated entirely.

4. Approvals & Documentation

- a) Approval of the loan shall be recorded in IIC meeting minutes, including summary of terms: amount, interest, term, forgiveness triggers, disbursement deadline, reporting requirements.
- b) No additional formal approval by the Board of Trustees is required under this policy (unless otherwise specified in the Foundation's bylaws or charter).
- c) All approved loans shall have a signed **loan and forgiveness agreement** specifying:
 - Purpose and charitable use
 - Term, rate (if applicable), and payment schedule
 - Forgiveness criteria and timeline
 - Reporting and monitoring requirements
- d) The IIC staff liaison and Chief Financial Officer shall ensure the loan is tracked in the IIC's internal accounting ledger, and the status (outstanding, forgiven, repaid) is reported at each meeting.
- e) The Foundation's Chief Financial Officer ("CFO"), in coordination with the IIC staff liaison, shall evaluate the appropriate accounting and tax treatment of each forgivable loan made under this policy, and shall ensure that the treatment complies with applicable accounting standards and the Foundation's independent auditor's guidance.

5. Terms, Forgiveness & Recapture

a) Forgiveness Triggers:

- Forgiveness of all or part of the loan may be granted when the recipient demonstrates achievement of specified charitable outcomes such as:
 - Delivery of agreed-upon community benefits or impact metrics
 - Completion of project milestones or measurable public outcomes
 - Documented compliance with reporting and use-of-funds requirements
- The Impact Investment Committee, upon staff recommendation, will approve forgiveness in accordance with program guidelines and documentation requirements.

b) Repayment & Recapture:

- If funds are not used as intended within 12 months, staff may voluntarily return the funds to the IIC. Failing that, the committee may request the Foundation's Chief Executive Officer to initiate claw-back of principal (interest as applicable) from the Internal Fund.
- The loan becomes repayable (interest as specified, if any) according to the schedule approved.

c) Monitoring/Reporting:

- Foundation staff shall submit a "Loan-Use Report" every three (3) months until the principal is fully expended/disbursed or forgiven. Reports shall include: amount disbursed, description of uses, number and demographics of recipients (where applicable), any deviations from plan, and remaining balance. These reports shall become part of the IIC meeting minutes.

d) Upon forgiveness or full repayment, staff shall update IIC accounting records to reflect conversion to grant (if forgiven) or closed loan.

6. Financial Management

- Program capital will be sourced from the Foundation's **impact investment pool** or designated donor funds authorized for recoverable grants.
- Repayments (if applicable) will be recycled for future impact investments.
- Forgiven portions will be expensed against the Foundation's impact investment pool and recognized as a financial expenditure or loss, as appropriate for impact investment return reporting.

7. Compliance & Legal Considerations

- All investments must comply with **IRS regulations** governing charitable expenditures and the Uniform Prudent Management of Institutional FundsUPMIFA.
- The Foundation will ensure that loan forgiveness supports a **charitable purpose** and does not result in private benefit.
- All agreements shall be reviewed by legal counsel prior to execution.

8. External/Internal Communications

a) Staff shall develop a communications protocol (internal and external) to announce or report the existence and terms of any such internal-forgivable-loan, including:

- Rationale for use of internal loan instrument rather than grant
- Summary of terms (without confidential details) in the Foundation's annual impact/financial report, if necessary
- Disclosure to donors or stakeholders as required for transparency and stewardship.

b) Internally, the staff liaison shall ensure that the loan is clearly identified in budget documents, internal fund statements, and tracking systems so that the Foundation's finance team treats it appropriately (as loan, contingent forgivable grant, etc.)

9. Policy Review & Amendment

This policy shall be reviewed by the IIC annually (or sooner if needed) and updated at least every three years or when significant lessons are learned from its use. The IIC may recommend amendments to the policy, including adjusting limits, term cap or forgiveness triggers.

10. Definitions

- **Internal Fund:** A fund or committee of the Foundation or of the New Mexico Community Trust to which the IIC makes the loan; not any other separate legal entity external to the Foundation.
- **Forgivable Loan:** A loan made under this policy which will convert to a grant (i.e., forgiven) if defined conditions are met, or become repayable if they are not met.
- **Disbursement Deadline:** The date by which the Internal Fund must have expended or deployed the principal amount for the approved purpose.
- **Loan-Use Report:** A reporting document to the IIC covering progress of disbursement, uses, impact metrics, remaining balance.