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External Revolving Loan Funds: Expanding Interim Financing for Land Conservation

by Mary McBryde, Peter R. Stein and Story Clark

Limited financial resources, rising costs of land and time-sensitive projects that require immediate capital have made interim financing (also called bridge financing) an integral component of many land conservation transactions. This type of financing closes the gap between short-term funding needs (e.g., arising when a property is threatened and funds must be acquired in a short period of time) and the availability of permanent (or at least longer-term) funding. Interim financing allows conservation organizations to play on a more even footing with nonconservation-oriented buyers that have access to "ready" capital.

Additionally, because interim financing enables a quick response, an organization can pursue its priorities based on conservation significance rather than opportunity and available funding. This encourages a more proactive and strategic approach to land conservation, helping to ensure that limited conservation dollars are allocated to the highest-priority projects.

As interim financing must be repaid, the borrowing organization must be capable of developing and implementing a financial plan. The organization must instill confidence in its interim lenders by showing that it has a good financial track record. And ultimately, it must have the capacity to secure take-out funding (that is, funding that "takes out" the interim lender) and retire the interim debt in a timely manner. These requirements pose significant challenges for some conservation organizations—particularly those with limited or no financial and/or transaction experience.

A variety of entities and mechanisms provide interim financing, including charitable guarantors, conservation investors, conservation buyers, banks, personal loans, direct program related investments (PRIs) and revolving loan funds. This article focuses on one increasingly important financial tool: external revolving loan funds. These funds are dedicated pools of capital held by nonprofit organizations specifically to provide short-term (often low-interest) loans for land conservation to multiple organizations with a shared geographic focus or overlapping conservation goals.

Internal and External Funds

Generally, a revolving loan fund is used for a variety of purposes, including the acquisition of land, the acquisition of conservation easements, the purchase of options or the payment of transactions costs. Traditionally, revolving loan funds have been established internally—that is, by a single organization creating a capital reserve to complete its high-priority, time-sensitive projects. For example, the Vermont Land Trust (VLT) is creating a regional loan fund as part of its capital campaign. The loan fund will provide VLT with short-term financing for its own high-priority conservation projects.

An emerging and increasingly important type of revolving loan fund offers loans externally, to multiple organizations. These external loan funds provide short-term capital to organizations that have an immediate funding need, often entities that have limited or no internal reserves and that lack access to a national pool of capital or other sources of interim financing. The presence of an external loan fund in a region that has traditionally lacked interim financing can be a catalyst for a variety of conservation organizations to pursue high-priority, time-sensitive projects that may otherwise be lost. Some revolving loan funds serve dual purposes of providing interim financing both internally and externally.

In regions where land conservation organizations have interest and capacity to borrow funds and where take-out financing is available, external loan funds have a much greater probability of success. The availability of ready and inexpensive capital can facilitate many land transactions, including complex transactions with multiple funding sources and multiple partners. Because of their multiorganizational reach, external loan funds increase the likelihood that a greater number of organizations will, individually or collectively, develop or strengthen the skills necessary to become competent borrowers and conduct more sophisticated land transactions. Additionally, the presence of such funds offers the promise of helping conservation organizations to identify and prioritize overlapping goals for a region.

Borrowing Funds: Potential Challenges

As previously noted, although the availability of interim financing from external loan funds offers many benefits, utilizing such funds (as well as other sources of interim financing) can be challenging for some conservation organizations. The reasons are as follows:

- Because interim loans from external sources must typically be repaid, the borrowing organization must secure permanent or longer-term public and/or private take-out funding. This can be a competitive and complex process, particularly given the unpredictability of public funding and limited access to private dollars. It requires an understanding of financial planning techniques as well as an ability to make realistic projections about the availability of take-out sources.

■ The process typically requires a borrowing organization to have financial resources to cover the upfront acquisition expenses (title, survey, due diligence, legal), the borrowing costs, and costs associated with activities often necessary to acquire permanent funding (e.g., meetings or trips with political officials or representatives of other organizations).

■ External interim lenders often require collateral (or some other form of guarantee) as security. With secured collateral or a loan guarantee, the lender has greater confidence in the loan and a higher probability of being repaid should the borrowing organization default on the loan. Collateral, however, must be chosen carefully, so as to prevent an important conservation property from being lost in a foreclosure. In some cases an organization may not be able to provide any source of collateral or guarantee, and less traditional forms of security, such as partnering with an organization with greater financial assets, may be possible.

■ Ideally, borrowers should have substantial "field" capacity, including staff, expertise, skills and technical know-how, that is necessary to conduct land or conservation easement acquisitions or be able to partner with other organizations with such resources. Additionally, lenders are likely to hold conservation organizations to a high standard of due diligence review on every loan application.

Despite these challenges, greater use of external loan funds could occur across a spectrum of conservation organizations, including those that currently borrow only from traditional sources, such as banks; those that have the capability to borrow but are averse to risk; and those that are motivated to borrow but lack the skills or confidence to do so.

Although external revolving loan funds share the same general purpose of providing interim financing to multiple conservation organizations for a range of conservation purposes, they may differ in several key ways, including administrative structure, source of capitalization and geographic scale.

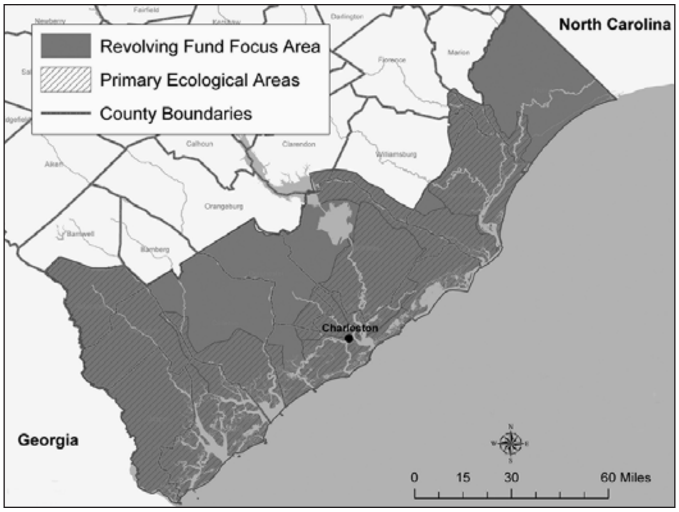
Administrative Structure

Many types of conservation organizations are administering external revolving loan funds, from statewide land trusts to national conservation organizations to community foundations to conservation intermediary organizations. Notwithstanding their diversity, these entities often have significant financial capacity, as well as staff and board members with extensive financial and/or land transaction expertise. In some situations, such lending organizations are capable of providing technical assistance to borrowers. In these cases more experienced organizations can share their skills and knowledge with organizations that are less experienced with complex financial transactions, increasing the capacity and competency of borrowers. When financial knowledge is shared in this manner, complex projects are more likely to be pursued and completed.

Consider, for example, the Maine Coast Heritage Trust (MCHT), one of the oldest and largest land trusts in Maine. MCHT administers a regional revolving loan fund, the Maine Coast Heritage Trust Land Acquisition Revolving Fund, which provides short-term loans both externally to local land trusts, municipalities, and other qualified nonprofits and government entities working to complete time-sensitive deals, and internally to selected projects conducted by MCHT. In making short-term loans to external organizations, MCHT often has an opportunity to share some of its financial knowledge and skill with borrowing organizations. MCHT's initial decision to make short-term loans to external organizations was driven by its critical need to assist smaller organizations with important projects that demand an immediate response. By expanding the program to make loans externally on an ongoing basis, MCHT is building financial capacity within a community of land trusts and other land conservation groups across Maine. The members of this community are increasingly able to deal with reasonably sophisticated financial transactions.[1]

Another example of an external revolving loan fund is the Great Lakes Revolving Loan Fund (GLRLF), administered by The Conservation Fund (TCF), a leading national conservation organization. The GLRLF was created in 2001, when the Charles Stewart Mott Foundation awarded a $3.75 million lead grant to TCF to establish a fund that would provide bridge financing to other land conservation organizations in the Great Lakes basin. At the same time that it provided TCF with the capital to launch the GLRLF, the Mott Foundation made a second $225,000 grant to TCF to provide technical assistance to local partners in the Great Lakes basin, thereby building capacity among its borrowers. In 2002 The Conservation Fund received an additional grant of $2 million from the Mott Foundation to support the revolving loan fund. GLRLF funds are available for acquiring property or conservation easements in the U.S. portions of the Great Lakes basin and for two specific types of transactions: direct loans to land trusts and advance purchases of land in partnership with public agencies or nonprofits. The GLRLF provided its first loan in 2001 to a local land trust, the North Woods Conservancy, to help protect Seven Mile Point on Michigan's Keweenaw Peninsula.[2] A second loan was awarded in 2002 to The Nature Conservancy to assist with the protection of more than 6,000 acres of pristine forest and wetlands on the Keweenaw Peninsula.

There is at least one example of a new approach—a community foundation administering an external revolving loan fund—that is currently being tested in South Carolina. The Lowcountry Conservation Loan Fund is an example of such a fund. It was established in 2002 with grants to The Community Foundation Serving Coastal South Carolina (now the Coastal Community Foundation of South Carolina) made by the Merck Family Fund and the Dorothy and Gaylord Donnelley Foundation. The two donor organizations made matching grants of $500,000 to the community foundation to create a revolving loan fund that would provide interim financing to conservation organizations in the Lowcountry to protect the



Map developed by Ben Silberfarb, LTC Conservation Advisory Services

The Lowcountry Conservation Loan Fund provides interim financing to land conservation organizations in the Lowcountry region of South Carolina. The Primary Ecological Areas shown here were derived from a data set developed by the U.S. Fish and Wildlife Service-SC, in conjunction with other partners.

region's most important lands *(see figure above)*.

External revolving loans funds are also administered by organizations known as conservation intermediaries, a diverse group of third-party finance organizations that are playing an increasingly important role in land conservation. Intermediaries provide a range of services to foundations and individuals supporting land conservation, as well as the conservation organizations conducting land transactions. In addition to the creation and administration of external revolving loan funds, services include advising conservation donors, administering grants or PRIs, relending or regranting conservation dollars to local and regional conservation groups, administrating mitigation funds and providing technical assistance to conservation organizations.

Intermediaries serve a particularly valuable role in helping foundations and other potential funders to launch effective external revolving loan fund programs. The intermediaries have the necessary staff, expertise and skill to design and implement external revolving loan fund programs focused on specific regions and programmatic objectives. Additionally, these entities are capable of applying the greater level of scrutiny that is required for loan processing but not typically necessary with traditional grantmaking. To varying degrees, the funders and the borrowing organizations rely on the intermediaries to conduct project-specific due diligence, assess risk, evaluate conservation proposals, provide technical assistance, make specific decisions about the distribution of funds and secure loan repayments. The results are reduced administrative and technical responsibilities for the funder and the establishment of direct and ongoing relationships between the intermediary and the conservation community.

Conservation intermediaries currently administering external revolving loan funds are the Colorado Conservation Trust, Conservation Resources, Inc., the Open Space Institute, and Resources Legacy Fund.[3] The Colorado Conservation Trust (CCT) is similar in structure to a general purpose community foundation, except it is solely focused on conserving Colorado's natural resources, including the open spaces, agricultural lands, wildlife habitat, rivers and scenic corridors. CCT provides a range of services to both funders and conservation partners working in its areas of interest. CCT currently administers two external revolving loan funds, both recently established: the Conservation Easement Tax Credit Transaction Cost Loan Program and the Land Protection Loan Fund. The transaction program provides loans of up to $20,000 to qualified nonprofit land trusts in Colorado to help cover transaction costs incurred when landowners are in the process of donating a conservation easement, in anticipation of receiving a cash payment from the sale of state income tax credits. The Land Protection Loan Fund was created to provide critical interim financing for protection of high-priority open lands. These are the first such funds to operate in Colorado.[4]

The Open Space Institute (OSI) is another type of intermediary that protects scenic, natural and historic landscapes in several regions, including New Jersey, the Greater Hudson Valley, the northern forest (ME, NY, VT and NH), western Massachusetts and the southern Appalachians. OSI is a different model because it acts directly, through its own land or conservation easement acquisition programs, and indirectly, by administering creative interim financing programs, including loan funds. One such loan fund administered by OSI is the New Jersey Conservation Loan Fund described as providing "short-term low-interest bridge loans to nonprofit conservation organizations to help with the permanent protection of New Jersey's remaining open space. The fund was launched in January 2003 with a $2.5 million PRI from the Geraldine R. Dodge Foundation; the William Penn Foundation subsequently invested an additional $1 million; and OSI has also committed a portion of its own capital to the fund." As of January 2005, the fund had made six loans totaling $3,935,100, to protect more than 10,000 acres, valued at over $45 million.

Source of Capitalization

Several methods have been employed for funding the organization, capitalization and ongoing operations of external revolving loan funds. These include grant funding and PRIs from foundations and private charitable contributions. As described earlier in this article, examples of external revolving loan funds capitalized, at least in part, with grants from foundations include the Great Lakes Revolving Loan Fund and the Lowcountry Conservation Loan Fund. A third example is the Greater Yellowstone Loan Fund, established by the Doris Duke Charitable Foundation in 2001 as part of a larger effort to support land conservation in the greater Yellowstone ecosystem. Unlike many loan funds, the Greater Yellowstone Loan Fund was not intended to revolve permanently, but was created to provide interim financing for a period of four years, after which time the loan funds could be converted into grants. The fund was capitalized with $1 million as part of a $2 million grant award for the purpose of acquiring land or conservation easements. It is administered by The Conservation Fund and makes low- or no-interest loans to its preapproved conservation partners, including the Teton Regional Land Trust, the Jackson Hole Land Trust, and the Idaho chapter of The Nature Conservancy.

There are several examples of PRIs made by foundations to establish revolving loan funds. The Maine Coast Heritage Trust Land Acquisition Loan Fund was initially capitalized with a $900,000 PRI from the MacArthur Foundation. That PRI has since been repaid, and the fund is now capitalized with donations from individuals, foundations and corporations. As noted already, the New Jersey Conservation Loan Fund was launched in January 2003 with a $2.5 million PRI from the Geraldine R. Dodge Foundation and later a $1 million PRI from the William Penn Foundation. The Greater Yellowstone Ecosystem Revolving Fund, administered by the Resources Legacy Fund (RLF), was funded in 2004 with a $7 million PRI from the David and Lucile Packard Foundation (this fund is not to be confused with the previously described Greater Yellowstone Loan Fund).

Although foundations more commonly use grants to support land conservation than other means, PRIs are slowly being employed by a wider group of funders, in part because they offer foundations a particular set of advantages. PRIs are loans or investments made by a foundation to support a charitable purpose identified in the foundation's programmatic goals. Most notably, a foundation can use its corpus, or investment principal, in addition to investment earnings, to fund PRIs. This can enable a foundation to commit far greater resources to land conservation than it might otherwise be able to do and to support land conservation at a much larger scale than possible through traditional grantmaking. Additionally, because PRIs must be repaid, a foundation can recycle conservation dollars and reuse the funds for additional projects, leveraging limited resources and maximizing the impact of foundation support. PRIs typically offer financing at below-market terms, which is likely to be particularly attractive to borrowers, given the competition for and limited availability of conservation dollars.

Because they must be repaid, PRIs impose a higher level of rigor than grants. They demand, of both the lender and borrower, greater accountability, organizational efficiency and improved accounting and due-diligence practices. In time, greater use of PRIs will result in an increased financial maturity for both lenders and borrowers and may expand the scale of land conservation transactions.

Geographic Scale

It is at the regional or landscape scale that external loan funds may achieve their greatest value. Regional- and landscape-scale revolving loan funds present a new tool for financing, facilitating and implementing landscape-scale conservation. At this scale, given the diversity and number of conservation projects, lenders seek assurances that conservation dollars are allocated to the most important projects in a landscape. Because an external loan fund is open to multiple organizations there can be a shared interest in making the fund as successful as possible. This creates an opportunity for cross-organizational cooperation and priority setting that, in turn, helps to guarantee the financing of high-priority projects. This potential collaboration between conservation partners can result in a regional- or landscape-scale conservation strategy that is comfortable for lenders, which may mean greater commitments from existing lenders and new funding sources for the region.

One of the most interesting examples of a landscape-scale revolving loan fund is the pioneering effort currently being tested in the Greater Yellowstone Ecosystem. In August 2004, the David and Lucile Packard Foundation awarded a $7 million PRI to the Resources Legacy Fund (RLF) to capitalize the Greater Yellowstone Ecosystem Revolving Loan Fund.[5] This fund was established to provide low-cost bridge financing to multiple conservation organizations in the region for the most critical land transactions. RLF is responsible for the day-to-day implementation as well as the long-term management of the loan fund. RLF has an in-region consultant and they have established a regional advisory committee to assist in the evaluation of potential projects. The first loan was approved in the fall of 2004.

Other Foundation Lending

Some foundations (most notably the Bullitt Foundation, David and Lucile Packard Foundation, Norcross Wildlife Foundation, and MacArthur Foundation) have programs (usually PRIs) that provide direct interim financing for land conservation transactions similar to the revolving loan programs described in this article.[6] These programs, however, are technically different from the external loan funds described here, in part because of the different standards that govern such foundation lending. Nevertheless, these programs offer additional and critical sources of interim financing.

For example, the Norcross Wildlife Foundation offers funds to conservation borrowers through the Norcross No-Interest Loan Fund for Land Protection. This fund provides a rare source of financial support: interest-free loans for the acquisition of land (or interests in land) that has priority wildlife habitat.[7] The Norcross program is an example of an effort with a specific ecological focus; some other loan programs have multiple objectives, such as preserving lands that provide clean water, scenic views and wildlife habitat.

Other foundation-run interim financing efforts include the Packard Foundation's Conserving California Landscapes Initiative, which was launched in 1999 and offers both grants and loans to support land conservation in three high-priority regions of California (the Central Coast, Central Valley, and Sierra Nevada); the Bullitt Foundation's support of loans and grants for land conservation in the Pacific Northwest; and the MacArthur Foundation's ongoing loans to conserve endangered tropical systems.

Looking Forward

Demand for interim financing will continue to grow as land becomes more expensive, the scale of projects increases, market competition intensifies, interest rates rise, organizational sophistication grows, and greater numbers of conservation projects require immediate capital. External revolving loan funds can help to meet the demand for short-term conservation financing. Because they expose a wider segment of the conservation community to a tool that encourages proactive conservation and enables more organizations to pursue time-sensitive projects, external revolving loan funds hold a significant potential to increase the pace and scope of land conservation.

The use of sophisticated financial instruments such as external revolving loan funds, particularly at the landscape and regional scale, holds significant promise for both small and large conservation organizations to grow and evolve. As they engage such financial tools on a greater scale, these organizations will become more dynamic, innovative, risk tolerant and financially savvy. With such growth and advancement, the conservation community will be increasingly capable of rising to the task of saving the country's most important lands.

Resources

For more about loan funds, see:

- **The Conservation Fund**
  www.conservationfund.org;
  www.conservationfund.org/?article=2465&back=true
- **Colorado Conservation Trust**
  www.coloradoconservationtrust.org
- **Maine Coast Heritage Trust**
  www.mcht.org
- **Open Space Institute**
  www.osiny.org/home.asp
- **Resources Legacy Fund**
  www.resourceslegacyfund.org
- **Coastal Community Foundation of South Carolina**
  www.ccfgives.org/

Mary McBryde *is a project manager with the LTC Conservation Advisory Services-Lyme Timber Company and a former land protection assistant with the Jackson Hole Land Trust.*
Peter R. Stein, *a partner with The Lyme Timber Company, was formerly board chair of the Land Trust Alliance and a senior vice president at The Trust for Public Land.*
Story Clark, *a former LTA board member with over 25 years in land conservation, is a consultant specializing in land conservation strategy, stewardship and financing.*

ENDNOTES

1 Maine Coast Heritage Trust, "Revolving Loan Fund Aids Land Conservation," Land Trust News: The Newsletter of the Maine Land Trust Network, Summer 2002, available at www.mltn.org/news/ltn_summer_02.pdf.

2 North Woods Conservancy, "Seven Mile Point," available at www.northwoodsconservancy.org/sevenmile.htm.

3 For more information about these organizations, see the Colorado Conservation Trust, www.coloradoconservationtrust.org; Conservation Resources, Inc., www.conservationresourcesinc.org; Open Space Institute, www.osiny.org/home.asp; and Resources Legacy Fund, www.resourceslegacyfund.org.

4 See Colorado Conservation Trust, www.coloradoconservationtrust.org. See also www.coloradoconservationtrust.org/cctprograms/initiatives_increasefunds.php and www.coloradoconservationtrust.org/cctprograms/initiatives_newtools.php.

5 See Resources Legacy Fund website, www.resourceslegacyfund.org.

6 For more information about these foundations, see the Bullitt Foundation, www.bullitt.org; David and Lucile Packard Foundation, www.packard.org; the Norcross Wildlife Foundation, www.norcrossws.org; and the MacArthur Foundation, www.macfound.org.

7 See Norcross Wildlife Foundation website at www.norcrossws.org; and the Land Trust Alliance, "The Norcross Wildlife Foundation Offers a No-Interest Loan Fund for Land Protection," available at www.lta.org/resources/norcross.htm.