CASE STUDY

RSF SOCIAL FINANCE'S SOCIAL ENTERPRISE LENDING PROGRAM

IMPACT INVESTING 2.0

May 2014

ORGANIZATION HEADQUARTERS	San Francisco, CA, U.S.
YEAR FOUNDED / LAUNCHED	Originally founded in 1936, revived as a financial service organization in 1984
LEADERSHIP	Don Shaffer, President & CEO Mark Finser, Chair of the Board Gary Schick, Chief Financial Officer &COO Ted Levinson, Senior Director of Lending John Bloom, Senior Director of Organizational Culture
DESCRIPTION OF PRIMARY ASSET CLASS	Mortgage loans, working capital lines of credit, and inventory financing
TOTAL LOANS UNDER MANAGEMENT	$71,670,971 as of December 2013 (unaudited financials)
GEOGRAPHIC FOCUS	U.S.- and Canada-based for-profit and nonprofit social enterprises
SECTOR FOCUS	Food & Agriculture Education & the Arts Ecological Stewardship
FINANCIAL PERFORMANCE	0.25 % current interest rate 0.50% average interest rate (last 3 quarters) 0.83% average interest rate (last 5 years) No investor has lost money and loan fund has had approximately 2% default rate over 30 years.
SOCIAL PERFORMANCE	Impact differs within each focus area, but overall borrower impact increased by a normalized average of seven points on the B Impact Rating System from 2011 to 2012.

Cathy Clark and Jorge Soriano were the lead authors of this case, with assistance from Ha Le and Jack Beuttell. This case study is part of The Impact Investor, a research partnership between InSight at Pacific Community Ventures, CASE at Duke University and ImpactAssets from 2012-2014. The Impact Investor project team was co-led by Cathy Clark, Jed Emerson and Ben Thornley. More in-depth impact investing fund case studies, practitioner blogs, videos from expert convenings, as well as project reports, are available at: http://bit.ly/impinv and at the twitter hashtag #impinv2.

Photo credit, from top to bottom: Hana Health; Guayaki; Daniel Seguin.

INTRODUCTION

RSF Social Finance (RSF) is an innovative public benefit financial services organization dedicated to transforming the way the world works with money. RSF offers investing, lending, and giving services to individuals and enterprises committed to improving society and the environment. Since 1984, RSF has given out more than $285 million in loans and more than $100 million in grants.

RSF is both philosophically and functionally unique in the investment marketplace. Philosophically, RSF acts as not just a financial services organization, but as a thought leader and field builder. Inspired by the work of the famed economist and scientist Rudolf Steiner, RSF is dedicated to exploring how money can connect people and their values and strengthen the bonds of community. Functionally, RSF is quite innovative. Through its mix of eight legal entities comprising both investment and grant vehicles, RSF offers its 1,500 clients the possibility to leverage grants, loans, and investments in order to create significant positive impact by working to align their money with their values.

> "Based on our close reading of Rudolf Steiner's lectures on economics, we believe the community of participants in the Social Investment Fund can most accurately determine a price that meets the needs of all parties."
>
> – DON SHAFFER, PRESIDENT AND CEO, RSF SOCIAL FINANCE

RSF Social Investment Fund, Inc. (SIF), a California nonprofit public benefit corporation charged with supporting the charitable mission of RSF, is RSF's core investment product. The SIF provides loans to U.S.-and Canada-based nonprofit social enterprises whose work focuses in one of three areas: food and agriculture, education and the arts, and ecological stewardship. The SIF has also entered into a credit facility to provide funding for loans originated by RSF Social Enterprise, Inc. (SEI), a 100%-owned for-profit subsidiary of RSF that makes loans to for-profit social enterprises in the same focus areas with the same investment criteria. The loan portfolios of these entities comprise RSF's Social Enterprise Lending Program (See Figure 2). As it seeks to bring financial services to viable social enterprises, which often lack access to conventional financing, the RSF Social Enterprise Lending Program employs a disciplined risk management process, resulting in an extremely low default rate and leverage ratio. The team also employs a high-touch, transparent approach, where borrowers and investors can interact with one another throughout the investment process.

Since 1984, RSF's loans through the SIF and SEI have maintained a 100% repayment rate of principal plus interest, providing a low, but consistent positive return on investment for its clients. In addition, the funds have pioneered unique ways of aligning stakeholders through heightened transparency and engagement. For example, RSF's loan instrument may be the only one in the world that allows investors and borrowers to influence interest rates based on input from quarterly face-to-face pricing meetings. RSF has also started to integrate stakeholder alignment more formally into its deal structures, finding ways for stakeholders to bring in different forms of catalytic capital, which RSF calls an "integrated capital" approach. These practices allow RSF to provide solutions that reduce risk, amplify impact, and differentiate the fund from other lenders.

RSF's lending program aims to amplify the impacts of its borrower organizations, helping them navigate growth of their impact in close coordination with mission-aligned financial stakeholders. To carry out this work effectively, RSF must select and manage investments that result in loan repayment. RSF's success to date provides important lessons to the field of impact investing about how to formalize meaningful and direct relationships across sectors and among diverse stakeholders – including investors and social entrepreneurs, donors and grantees – within an overall structure of disciplined investment practice.

ORIGINS

RSF Social Finance was incorporated in 1936 as Rudolf Steiner Foundation, Inc. "primarily for the furtherance of the interests of the cause and teachings" of Rudolf Steiner. Steiner (1861-1925) was an Austrian philosopher and scientist commonly known for creating the Waldorf School model of education, which has taken root in educational institutions in more than 60 countries.[1] Steiner's work influenced a number of fields, including agriculture, education, medicine, science, architecture, spiritual development, and social theory. In 1922, he gave a course of lectures on economics, which served as the framework of Associative Economics that inspired the founding of RSF Social Finance.[2]

From 1936 to 1983, RSF engaged in fundraising and charitable giving to organizations and initiatives arising directly out of Steiner's work and lectures. The culture of the organization is reflected in RSF's purpose and values statement (see Figure 1).

FIGURE 1. RSF'S PURPOSE AND VALUES STATEMENT

Purpose: To transform the way the world works with money.

VALUES:

Spirit...

The primary role of money is to serve the highest intentions of the human spirit.

Trust...

People are best served by financial transactions that are direct, transparent, and personal, based on long-term relationships.

Interdependence...

Economic success will be defined by social and ecological impact, not by financial results alone.

Community...

Networks and associations will be increasingly important in the circulation of money.

Innovation...

A deeply entrepreneurial culture is required to generate breakthrough ideas at the intersection of social change and finance.

Equality...

All those seeking to align their values with their money will have access to opportunities for investing, lending, and giving.

THE EMERGENCE OF RSF SOCIAL FINANCE'S LENDING PROGRAM

RSF's lending program emerged in 1984. Siegfried Finser, a trustee, saw an opportunity to apply finance to Steiner-inspired institutions. There was a Waldorf School called Pine Hill that burned down, and RSF provided loan financing to rebuild it. Finser realized that the trust that RSF had within the community was something that could become the core of a new kind of financial institution. His son, Mark Finser, who served as President and CEO of RSF from 1991 to 2007, commented, "Trust is in the small details of any financial transaction. You have to become a listener to figure out new ways of guaranteeing, pledging, and securing loans. RSF is really about building community, about the counterposition to the complexity and opacity in the current banking system and working instead on direct loans that are long term and based on personal relationships. The fundamental principle of RSF is that money does not move unless it's built on trust and confidence."[3]

Over the next 10-15 years, RSF funded the Waldorf school movement. In 2002, RSF moved to for-profit institutions. RSF's donor advised fund (DAF) activities started in 1985 and grew organically to meet the needs of investors in the loan fund. In 2005, RSF was among the first to launch mission-aligned DAFs offering impact investing portfolios.

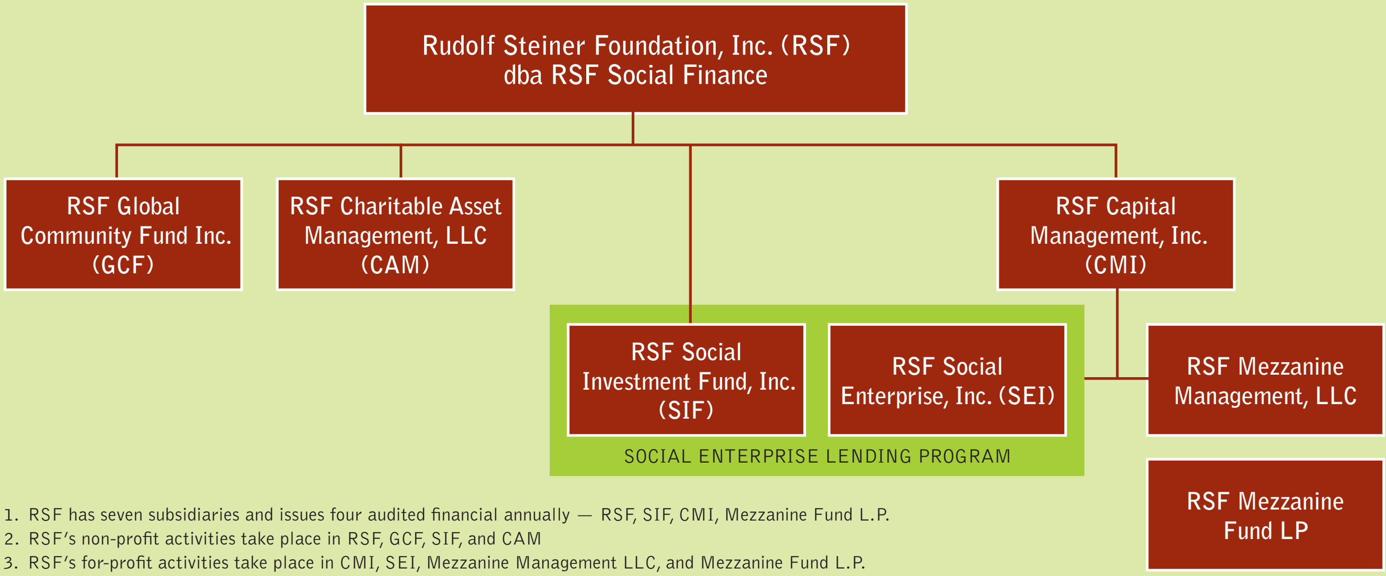
Today, there are seven 100%-owned affiliates of RSF, as seen in Figure 2, three of which are nonprofit and four of which are for-profit. The combination of entities allows RSF to distinguish different purposes of capital and align the motivations of those who provide capital to RSF (the donors and investors) with the use of funds for borrowers, investees, and grantees.

[1] See http://en.wikipedia.org/wiki/Waldorf_education

[2] For more on Associative Economics, see http://en.wikipedia.org/wiki/Associative_economics

[3] See Finser's TEDxPresidio talk in September 2012: https://www.youtube.com/watch?v=NQGh2VGhj-k

FIGURE 2. RUDOLF STEINER FOUNDATION, INC. ENTITY CHART
(DECEMBER 31, 2011)



1. RSF has seven subsidiaries and issues four audited financial annually — RSF, SIF, CMI, Mezzanine Fund L.P.
2. RSF's non-profit activities take place in RSF, GCF, SIF, and CAM
3. RSF's for-profit activities take place in CMI, SEI, Mezzanine Management LLC, and Mezzanine Fund L.P.

RSF formally incorporated SIF in 2000 when RSF's Board of Trustees determined that a more sophisticated lending program could be conducted in a separate supporting organization, rather than by RSF directly.

In 2007, the California Department of Corporations issued SIF a lender's license. The fund has made loans to mission-aligned enterprises since then, building on a similar lending program RSF had managed since 1984. In 2007, RSF also established a new for-profit fund, Social Enterprise, Inc. (SEI), and obtained a lender's license for it August 2008. The net effect of the restructuring was that RSF had two lending vehicles: SIF to originate and manage nonprofit social enterprise loans, and SEI to originate and manage for-profit social enterprise loans. Following the restructuring, RSF's loan portfolio was transferred to SIF; qualifying loans to for-profit social enterprises with a related amount of notes were transferred from SIF to SEI during 2008 and 2009.

In July 2008, RSF's board restructured RSF and its affiliates to consolidate the management of all for-profit activities within RSF Capital Management, Inc. (CMI), a newly-created, for-profit Delaware C corporation. In January 2009, CMI purchased SEI from RSF; SEI began originating loans that year. CMI was converted into RSF Capital Management, PBC, one of Delaware's first for-profit public benefit corporations, in August 2013.[4]

RSF has designed an array of innovative financial vehicles to serve unmet needs for investors, donors and social enterprises. The organization has also built working relationships with all kinds of institutional and individual investors and donors, as well as fund managers, charities, foundations and nonprofit and for-profit enterprises. RSF's lending program leverages these relationships to reduce risk and improve return, while staying true to its mission. It is impossible to understand RSF's performance without understanding this web of interrelated relationships.

[4] See http://rsfsocialfinance.org/2013/08/rsf-de-benefit-corporation/

THE TEAM

In 2013, RSF counted 37 employees. They work in eight teams: Executive, Client Development, Philanthropic Services, Lending & Finance, Marketing & Communications, Accounting, Systems & Operations, and Organizational Culture & Human Resources.

The RSF Executive team combines multi-sector management experience. Finser grew the organization's assets as President and CEO to over $120 million by 2007, when he transitioned to his current role as Chair of the Board of RSF. In 2004, he hired Gary Schick, a certified public accountant with over 20 years of financial services experience. Schick was promoted to RSF CFO in the same year, and became RSF COO in 2007. Also in 2007, Don Shaffer joined RSF as its president and CEO. For the previous three years he had served as executive director of the Business Alliance for Local Living Economies (BALLE), a network of small businesses, and as the interim Executive Director of Investors' Circle, an organization that facilitates the flow of private capital to address social and environmental issues. Shaffer was a serial social entrepreneur, growing a for-profit education business, a software company, and a sporting goods manufacturer. John Bloom, Senior Director of Organizational Culture, also had social entrepreneurship experience: he founded two nonprofits and worked at an independent school before joining RSF in his role overseeing capacity development and culture change within the organization and in its portfolio.

The Lending & Finance team manages the Social Enterprise Loan Program as well as investments for other RSF entities; it includes 13 people with experience from a variety of organizations including Wells Fargo, Fidelity, the Nebraska Equal Opportunity Network, GE Capital, and Grameen Foundation. Ted Levinson, Senior Director of Lending, joined the RSF lending team in 2008 and was promoted to his current position in 2012. Previously Mr. Levinson was the business manager at Green School and PT Bamboo, both in Bali, Indonesia. Prior to that, he spent ten years in small-business lending at Warren Capital Corporation.

THE FUND

RSF's Social Enterprise Lending Program, administered through the SIF and SEI, provides mortgage loans, construction loans, equipment loans, working capital lines of credit, and inventory financing exclusively to nonprofit and for-profit organizations dedicated to improving the well-being of society and the environment.

The loan program receives investment capital from accredited and unaccredited investors in 47 states and Canadian provinces. Investors have a $1,000 minimum and must place money with RSF for at least 90 days. The notes are unsecured and unrated. They are not FDIC insured; there are no collateral or guarantees by RSF or any other entity, though there is a loan reserve pool that RSF has maintained at nearly 10% of assets under management. Investors may elect to have interest accrued or get paid out on a quarterly basis. Additional options include gifting the accrued interest to RSF operations or another RSF granting fund, thus increasing the investor's social impact.

Investors keep their money in RSF for an average of four years. The average account size is $60,000 and investors come in with the goal of getting their principal back. Many see their loans with RSF as an alternative to a bank CD. "In fact," says Shaffer, "It's a very high-touch process to find new investors. We don't advertise widely." The team has found many of its new relationships through conferences and relationships with other pioneering impact investment- and enterprise-oriented groups, such as Investors' Circle, BALLE, Business for Social Responsibility, Social Venture Network, and B Lab, many of which are located in San Francisco where RSF is based. Finser was an active pioneer in many of these groups over the years, helping them to define their missions and build their programs; both he and Shaffer have served as board member for many of them. Adds Ted Levinson: "In recent years we are increasingly interacting with high net worth investors and their financial advisors. They are asking all sorts of questions about our financial stability no one has asked before. The opportunity has increased and so has the scrutiny." He adds, "Our biggest competitor now is inertia. There are loads of people up in arms over their bank's or mutual fund's practices but they don't do anything to look for better alternatives."

RSF PRIME AND QUARTERLY COMMUNITY PRICING MEETINGS

RSF funds its operating costs on the spread between the interest rate the borrower pays and the interest rate the investor receives. Unlike other funds, it holds quarterly community pricing meetings for its borrowers and investors to discuss and influence what those interest rates and spread rates should be.

The quarterly meetings began in 2009 after RSF decided to decouple its interest rates from LIBOR, which is used as the basis for most short-term bank loan interest rates around the world. This was an important, but challenging, decision supported by a study of Rudolf Steiner's economics lectures, in which he speaks about setting price by bringing together all parties involved—producer, consumer, and distributor. According to John Bloom, RSF's Senior Director of Organizational Culture, "This struck a deep chord for [RSF staff], as it is an essential part of our mission to build community through finance." At the pricing meetings, RSF asks each participant to discuss their interests—investors talk about their motivations, borrowers talk about their use of the loan proceeds, and RSF discusses the resources needed for them to work in their unique way as an intermediary. Further, RSF asks participants to respond to how a change in interest rate would affect them. During this round of conversation, the group gains insight into each other's financial needs, priorities, and plans.

For example, at the December 2013 meeting, two borrowers indicated that they had set their budgets for 2014 and that any upward change in interest rate would require reducing important program expenditures and potentially compromising business activities. As the intermediary, RSF brought to the table the fact that it had not changed the 4.0% margin it earns since 1991. It was clear from the meeting that because of the weak economy and historically low bank rates, everyone was operating on thin margins. Despite the initial tension, as a result of the discussions, there was a general desire to maintain the status quo for the first quarter of 2014. As John Bloom described in a recent blog post:

> A week following the pricing meeting, the RSF Pricing Committee met to set the interest rate for the quarter. After reflecting on what was shared at the pricing meeting, it was clear that a raise in rate for the borrowers would cause some financial hardship, and might potentially discourage other new borrowers from applying for loans, as banks have a significantly lower cost of capital and more flexibility to negotiate rates. While none of the investors was enthusiastic about a lower interest rate, it seemed they were overall affected less by a change. Even a slightly reduced rate is still competitive with rates on bank savings accounts or CDs. The Pricing Committee needed to adjust somewhat for RSF's needs, at least for the near term. The result was a reduction of return to the investors by 25 basis points from the current rate of 0.50% to 0.25%, with RSF Prime (the rate for borrowers) remaining the same at 4.5%.
>
> This last gathering marked an important change in the nature of the pricing meetings. The associative [economics] picture that Rudolf Steiner gave was fully present as all parties outlined their needs, engaged in understanding, and spoke from their hearts. Though the resulting recommendation for status quo was not followed, the Pricing Committee believes it took into account the needs that were voiced at the meeting. RSF's purpose to transform the way the world works with money is exemplified in the engaged process we call pricing meetings. We cannot imagine a more direct, transparent, and personal way to work with interest rates. Though the system may not be perfect for everyone, the participants in the meetings can assure you that it is real.[5]

[5] The post "Thin Margins, Deep Trust," appeared first on RSF Social Finance: http://rsfsocialfinance.org/2014/01/thin-margins-deep-trust/.

RSF investor Kristin Hull gave more insight into the power of this interpersonal dynamic on a panel at the SOCAP conference in 2012. "At my first RSF pricing meeting, I got to meet people who had a tea business or a Waldorf school, people building companies around a variety of different products or brands I already used, and it was really exciting to meet them. They said, 'we really want you to get a higher interest rate.' We were already getting 1%, which seemed exorbitant to me. They said, 'we want you to feel really good about this.' We, the investors, didn't want the burden of repayment to be so high because the companies were already making the change we wanted to see in the world. It was just a fascinating back and forth, and there was so much alignment." After the meeting, Kristin opened up a personal account and also moved her children's accounts over to the RSF SIF fund.[6]

Chris Mann of Guayaki Sustainable Forest Products, an RSF borrower, sums up his rationale for choosing RSF:

> For me, the essence of working with RSF and the pricing model that they have is that it brings the human element into communication. It's not just a transaction, here's a number and it's based on the London bank rates, something that doesn't really matter to me. But what about things that really matter to us? ... When we had the last pricing meeting, I was taken by how much we were aligned. Rationally I know we're aligned. But when you sit in a room and really hear everyone's story, it takes everyone out of a box and brings everyone in the full human view of who they are. The cost of capital is important in our business. The cost of capital defines what we can and cannot do. But we have a range we can work with. And when I'm really connected to someone or something, then I want to give more to it. I want to give more to this kind of process because it's something I believe in.

OPERATING BUDGET & LENDING STRATEGY: THE QUEST FOR FINANCIAL SELF-RELIANCE

RSF is ambitious, both as a nonprofit leader and as a respected financial services organization – not always an easy balance. For example, in 2006, a decision was made by the board and senior staff to achieve an annual operating budget that would be 100%-funded by earned income within several years. This meant that revenue from lending activity would need to increase to support the existing budget. New loan originations would also need to increase.

The loan portfolio balance has doubled since that time, from $35 million in 2006 to more than $75 million today. But, the Great Recession claimed three of RSF's ninety borrowers, resulting in partial losses for those loans in 2011. The lesson: especially during an expansion period, stay focused on core strengths, which is a dedication to social enterprise. For the past several years, RSF management has done a great deal of work to refine its working definition of social enterprise within three focus areas: food and agriculture, education and the arts, and ecological stewardship. Each area now has specific business development strategies and intake criteria.[7]

The focus on social enterprise has increased RSF's alignment with its borrowers and investors. However, the more limited number of social enterprises in its areas of interest has presented an obstacle for RSF in achieving its desired impact at a larger scale. Furthermore, among those enterprises that fall into RSF's strict social enterprise criteria, an even smaller number qualify for a loan based on traditional credit analysis, making the 100% earned income mandate difficult to attain.

[6] Video clips of the panel are available as part of the blogpost: "Mission Meld: A Case Study on Alignment in Impact Investing," http://blogs.fuqua.duke.edu/casenotes/2012/10/18/mission-meld-a-case-study-on-alignment-in-impact-investing/

[7] See more on RSF's definition of social enterprise: http://rsfsocialfinance.org/services/entrepreneurs/overview/

As of 2013, RSF's budget was 90 percent supported by earned income; with the remaining 10 percent from gifts. As of May 2014, the RSF management team and board believe this ratio is right for the organization given RSF's unique, high-touch approach to the lending process.

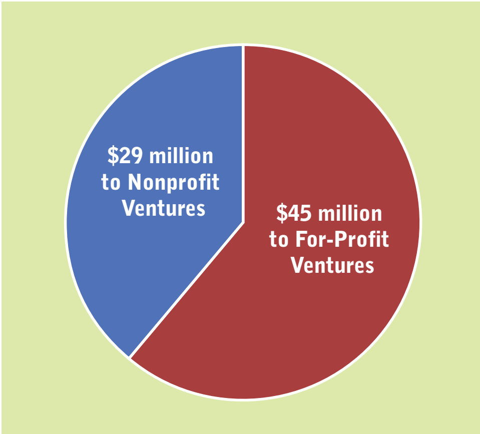
RSF is a relatively small organization with staffing and funding limitations; it is sometimes challenged to compete with larger, conventional banks as its borrowers grow. Once an RSF borrower has moved through the early stages of its organizational growth, stabilized its cash flows, and built out its management team, it often becomes eligible for traditional financing. Levinson laments the loss of many RSF clients to other institutions, noting that RSF takes all of the near-term risk, but doesn't necessarily harvest the long-term financial benefit. But RSF has embraced its place as a hands-on catalytic lender focused on social enterprises. As the field evolves, RSF believes there will be: (a) more social enterprises seeking loans, and (b) an emerging network of alternative, non-bank participants (high-net-worth individuals, family foundations, family offices, wealth management firms) who want to co-invest with RSF as the borrowers' needs increase.

INVESTMENTS

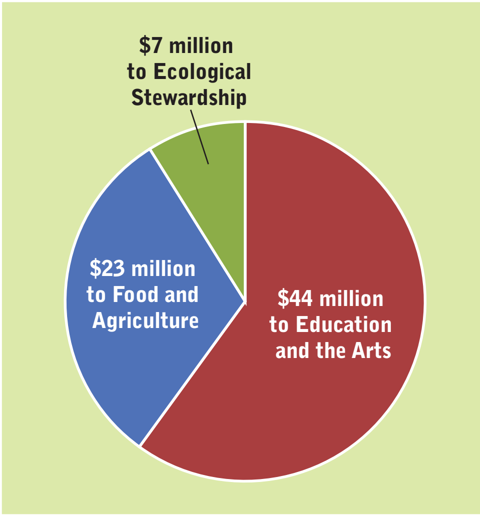
Since 1984, RSF has made more than $285 million in loans to 250 nonprofit and for-profit organizations.

FIGURE 3: CURRENT HOLDINGS AS OF NOVEMBER 2013

By Enterprise Type



By Focus Area



From initial contact to underwriting to funding, the goal for RSF is to establish a trusting relationship with its borrowers—one that is direct, transparent, and personal. RSF has more flexibility with structuring loans and considering risk than regulated banks, allowing RSF to provide funding to organizations that are not yet qualified for bank financing.

RSF serves social enterprises that meet these general criteria:

– Mission that addresses one of RSF's three focus areas: Food and Agriculture, Education and the Arts, Ecological Stewardship;

– Incorporated in the U.S. or Canada;

– Strong collateral (which may include pledge or guarantee communities);

– Excellent history of repayment ((both interest and principal) on any existing debt;

– Funding needs ranging from $200,000 to $5 million ($100,000+ for arts organizations);

– Three or more years of operating history;

– Profitability, or the ability to demonstrate a clear path to profitability in 12 months;

– Annual revenue of $1 million or greater preferred ($500,000 for arts organizations).

The maturities of the loans typically range from one to five years. Loans to variable-rate borrowers are charged a rate called RSF Prime, which is calculated by taking the quarterly investor funds rate and adding a 4.25% spread. Based on the borrower's risk profile, certain loans maybe charged more than the RSF Prime rate.

The fund typically requires collateral or other forms of security for loans. At least 90% of the fund's outstanding loans are secured by real or personal property or guaranteed by a third-party. Long-term loans are generally secured by mortgages on the land, buildings, improvements or other assets of the borrower.

A HIGH-TOUCH, DISCIPLINED APPROACH

One of the hallmarks of RSF's loan process is the intimacy cultivated between the borrower and RSF. For example, Levinson has visited more than 70 of RSF's borrowers since he joined RSF in 2008. He believes this face-to-face interaction builds credibility and a sense of "moral obligation" to fight for the loan when times get difficult. Levinson also believes that this is a major reason RSF borrowers are more likely to repay their loans than conventional borrowers. Moreover, since most RSF employees are investors, borrowers feel a greater sense of accountability when they meet Levinson or another RSF representative. All parties involved are part of a community with a singular focus of creating a positive social impact.

In addition to these strong relationships, RSF requires all borrowers with lines of credit to provide monthly financial reports, including an income statement, balance sheet, aging accounts receivables, and a borrowing base certificate. Similarly, real estate borrowers are required to report on a quarterly basis. Such a high-touch approach allows RSF to adjust conventional risk parameters for borrowers, offering more flexible repayment terms with fewer policies to younger organizations. The result is a wider applicant pool with a greater number of high-impact social enterprise candidates.

INTEGRATED CAPITAL

As discussed above, RSF Social Finance stands out among financial institutions for its integration of investing, lending, and giving services under a single nonprofit, public benefit umbrella. These relationships help them take advantage of combining and leveraging different kinds of catalytic capital.

> At RSF, "integrated capital" refers to the creative approach to combining or sequencing capital sources to finance impact investments. It relies on some combination of debt, equity, and philanthropic sources to meet capital needs during critical phases of an organization's lifecycle. In so doing, it takes beneficial advantage of the strategic interests of different organizations, leverages their resources, and spreads risk to more closely match investor expectations. The synergies between funders make the loan possible, converting an "unbankable" investment into an attractive impact opportunity.

In 1984, RSF's inaugural loan to Pine Hill Waldorf School in Wilton, New Hampshire used funds sourced from the Wilton community, which had a vested interest in seeing the school rebuilt. Today, the concept of engaging the community remains at the core of the RSF Social Finance mission, and RSF has become adept at using community risk-reducing capital in its lending. Working closely with potential borrowers, RSF has encouraged its stakeholders and outside philanthropic partners to create first-loss layers at the individual borrower level. This approach can both reduce financial risk and create important local constituent buy-in for the enterprise to succeed. Integrated capital can take on many forms, such as grants, guarantees, and concessionary investments, and has opened up more opportunities for donors to integrate into the RSF model, thereby increasing awareness of RSF and its mission. In addition, RSF plays an important role in the emerging ecosystem for social enterprise, by showing banks and other market rate lenders that these borrowers are credit worthy.

Investment Profile: Hana Health

Located in a remote area of Maui, the community of Hana is two hours (and over 40 on-land bridges) from the more populated areas of the island. Hana Health is the only healthcare provider for the 2,200 residents in the region. In the mid-1990s, a state-operated medical center ran into financial difficulties and planned to close its doors. Concerned about not having access to health services, members of the community rallied and worked with legislators to privatize healthcare. In 1997, Hana Health was launched as a nonprofit offering family practice medicine, dental care, preventative health, and urgent and emergent care. Since then, the organization has grown into much more than a healthcare center – it is now a leading example of how an organization can promote a local and sustainable food system that creates jobs, builds community, and prevents illness.

"Hana Health was born out of pure necessity," notes Cheryl Vasconcellos, Executive Director. When the state facility was about to close, the people of Hana were successful in working with the state to transfer the medical center to a nonprofit community-based organization. Unfortunately, significant reductions in state funds required a new approach to support needed health care in this small community.

It became apparent to Vasconcellos, that Hana Health needed a source of revenue. "I didn't want to live and die by the grant. We needed to look at our own resources, we needed to be entrepreneurial." She and her board developed a strategic plan for Hana Fresh Farms. It provided an opportunity not only to generate revenue, but also to further their mission to improve the health and wellness of residents of Hana, particularly Native Hawaiians and those who are underserved due to financial, cultural and geographic barriers.

Hana Fresh Farms began with a one-acre vegetable garden behind the clinic. Fresh produce in Hawaii is limited and very expensive. The state also has one of the highest rates of diabetes and obesity. Hana Health and Hana Fresh Farms are addressing these issues by integrating their health clinic and farmer's market. They offer discounts days at the market and have created health incentive programs. After preventative health screenings, patients receive a gift certificate for the farmer's market. They are currently working to develop a prepared meal program for patients with diabetes and other chronic health conditions that can be impacted with changes in diet. Vasconcellos and her team empower people to make healthy lifestyle choices by demonstrating the link between eating right and good health.

When the farm began creating a surplus, Vasconcellos researched potential buyers for organic produce and found a huge demand. They now sell to Whole Foods, Mana Foods (Hawaii's largest independent natural food store), local restaurants and smaller establishments. They are growing over 100 varieties of fruits and vegetables and are known on the islands for their high quality fresh produce. They also increased farm revenue 150% from 2009 to 2012.

In 2003 plans got underway for Hana Fresh Nutrition Center. The Nutrition Center would enable Hana fresh to expand its project to include prepared meals for sale at the farm market, as well as use "upgrade" fruits and vegetables from the farm for value-added products like jams and salad dressings. As demand for prepared meals at the farmers market increased, it became glaringly apparent that the 100 square-foot kitchen and outdoor tent were inadequate.

The majority of funding for the building, site work, and equipment came from government grants, but these were not enough to complete the project. Ted Levinson of RSF was on vacation in Hawaii when he came across Hana Fresh products at the local Whole Foods. After learning about Hana Health's model, Levinson knew they were a good mission fit and called Vasconcellos to inquire about their funding needs. From RSF's point of view, Hana Health was a strong candidate in terms of ability to pay back the loan, but had insufficient collateral to meet their desired risk profile. Levinson asked Vasconcellos to find a foundation to provide a guarantee for 100K of the 250K loan, which they did. "RSF contacted us exactly when we needed them. We had begun construction to avoid losing some of our grants but we didn't have enough to finish. We had some of the pieces but couldn't integrate them into a loan that made sense. Financing from the state didn't come through as expected and local banks wouldn't provide us with a loan," says Vasconcellos. But with RSF's clear suggestion about how to lower risk, Hana Health was able to leverage existing grant relationships to get the guarantee to make the new RSF loan possible.

In other cases, the lending program relies on pledges from a community that is supporting a particular loan. These pledges consist of legally binding commitments to make charitable donations, which may be drawn upon in repayment of all or a portion of the loan and provide security for repayment. However, the amount and type of security required for each loan is at the sole discretion of the fund. In some cases the fund may make unsecured or under-secured loans based on strong financial performance or other factors.

GOING FARTHER TO ENHANCE COMMUNITY AND REDUCE RISK

Levinson explains that the balance between catalytic intentions and benchmark investment criteria is subjective but important. "We walk away from a deal if we think we won't get paid back. If we think the project is going to be successful but there's a modest gap between RSF's comfort level and the amount being requested, then we find either guarantors or leverage philanthropic dollars to make the loan happen. If we're only 90% confident, and at the same time feel the social benefit is strong, then we may look for other sources of capital to bridge the gap and get to a yes. In the end, we need 98% confidence that we'll get paid back to make a loan."

At the same time, RSF is learning to apply different kinds of integrated capital to offset different kinds of risks. According to Levinson, "Sometimes RSF has a borrower right up its alley from a mission stand point, and has strong confidence that it will be paid back, but doesn't see how it could recover the money if it's mistaken. A lot of borrowers don't have a good answer to that second question." For example, Hana Health (see investment box) is a health clinic (operating on government-owned land) that needed money to build a commercial kitchen. RSF couldn't get a deed on the building because it was on government land. While RSF was confident Hana Health would pay it back--cash flow was strong and the project was good--there was no enforcement mechanism. Most of the time, RSF uses a foundation guarantee to strengthen the collateral position, but, when a nonprofit borrower has good collateral but weak cash flow, RSF tries to find grants to lower the loan amount.

THE RESULTS

Since 1984, RSF has maintained a 100% repayment rate – plus interest – to investors, and has made more $285 million in loans to social enterprises through the SIF program.

The interest rate received by investors varies quarterly, averaging 0.56% for 2013 and 0.83% over the last five years. The current interest rate for investment notes is 0.25%. Historical rates of return are similar to those of certificates of deposits from commercial banks, are the detailed in Figure 4.

FIGURE 4: HISTORICAL QUARTERLY INTEREST RATES

	Q1	Q2	Q3	Q4
2014	0.25%	0.25%	N/A	N/A
2013	0.75%	0.50%	0.50%	0.50%
2012	1.00%	1.00%	0.75%	0.75%
2011	1.00%	1.00%	1.00%	1.00%
2010	1.00%	1.00%	1.00%	1.00%
2009	0.71%	0.71%	0.50%	1.00%
2008	3.75%	2.00%	2.06%	3.00%
2007	4.00%	4.00%	4.00%	4.00%
2006	3.48%	3.83%	4.00%	4.00%

FIGURE 5. UNAUDITED METRICS TRACKED (DECEMBER 2013)

LIQUIDITY	• $101.8M in investment notes, from more than 1,500 investors • $71.7M in loans to 86 borrowers • $9.3M in reserves to support RSF and for loan losses • $15M available line of credit allows RSF more flexibility and responsiveness
CREDIT QUALITY	• 2.00% non-current loans (% of borrowers not current on loan repayments) • 4.32% loan loss allowance (provision over total portfolio) • 2.03% loan default rate (historical rate since 1984)
SAFETY/PROTECTION	• 90% earned income ratio (earned revenue/total revenue) • 9.23% capital ratio (reserves/total SIF assets) • $0 losses incurred by investors, since inception (1984)
INVESTOR BEHAVIOR	• $162M RSF total assets under management (includes other investment and grant programs) • 213 new investors • 9.84% SIF redemption rate • 4 years average investment holding term

To ensure the health of the loan fund, RSF tracks a series of unaudited common metrics related to liquidity, quality, safety/protection, and investor behavior. For example, in December 2013, these included the metrics listed in Figure 5.

Altogether, on the lending side, RSF has about ten percent of the funds under management in reserves and credit, a loan loss rate of only around two percent, and thus has had zero losses to investors.

SOCIAL IMPACT ASSESSMENT AND PERFORMANCE

The RSF team decided that the discipline of identifying the impact of their work over time requires that those influenced or affected by the organization reflect back to them something of the nature of that experience. According to Shaffer:

The specific challenge that we faced was that our role as intermediary does not easily lend itself to impact assessment. Yet, we know that we affect our donors and investors and our borrowers through how we do our work. That quality is often one of the primary reasons that others seek us out. As a financial services organization we create a whole system of interdependent relationships through transactions—money coming in as well as money deployed. In our research with investors and donors about what impact information would be meaningful for them, they indicated that our values and operating principles were as important to them as the extraordinary projects we fund. Our approach to finance has a quality that we wanted to be able to assess without the ethical challenge of claiming the good work of our borrowers or our donors and investors as ours directly.

The team agreed that a multifaceted approach would be necessary to assess how well RSF fulfills its purpose statement of transforming the way the world works with money. Building on the Steiner concept of associative economics, RSF has taken a stakeholder approach to social impact assessment by dividing its core constituents into key stakeholder groups and using different tools and processes to assess the value and impact created for each group. As of December 2013, these were in different stages of development, but the core concepts are described below and explained in the subsequent pages.

1. **FOR BORROWERS:** the annual *Portfolio Audit* is meant to show the impact RSF's portfolio of borrowers has had in the aggregate and over time, and has two years' worth of survey data. RSF also requires its borrowers to take the B *Impact Assessment,* which provides a broader field-level benchmark for reported impact.

2. **FOR INVESTORS/CLIENTS:** the annual *Client Impact Survey* consists of just one year of data, but presents an important baseline for future comparison.

3. **FOR RSF EMPLOYEES:** the annual *Organizational Culture Survey* includes a compilation of three years of data to show trends and patterns over time.

4. **FOR THE FIELD AT LARGE:** the *Field Building* assessment includes some early third party data, along with clear indicators of how RSF will be developing a Partner Audit instrument for next year. The data is focused on how RSF has influenced the emerging field of social finance.

IMPACT ON BORROWERS: RSF AND B IMPACT ASSESSMENT RESULTS

RSF QUESTIONNAIRE — RSF created its own questionnaire focused on understanding how a company views and assesses its own social impact, how transformative its practices are with regard to people, place, environment and transformation, and the degree to which working with RSF has informed or transformed its work and impact. Each RSF borrower fills out an annual online questionnaire and is given a score, and all the borrowers are then aggregated into the overall portfolio score (see Figure 5 below).

THE B IMPACT ASSESSMENT (BIA) is an online assessment tool showing how a company voluntarily meets certain standards of transparency, accountability, and performance. In addition to providing a score for each company by stakeholder impact, using this standard tool allows RSF to benchmark its borrowers' scores against a larger pool of for-profit social enterprises. (In order to qualify as a B Corporation, a for-profit must score a minimum of 80 out of 200 points; 15 of RSF's for-profit borrowers are certified B Corporations or legally incorporated as benefit corporations.)[8]

In 2011, 22 out of 76 (29%) borrowers completed the RSF survey, while 39 (51%) completed the BIA. This makes it difficult to aggregate or correlate the scores. That number was up slightly in 2012: 27 out of 84 (32%) for the RSF survey and 32 of 84 (38%) for the BIA. This is still a small, but improving sample. Over time, RSF will use the longitudinal data from each of the borrowers to build an aggregate picture of change. Summary data from 2011 and 2012 are in Figure 6.

[8] For more information on B Corporations and benefit corporations, see: www.bcorporation.net and www.benefitcorp.net.

FIGURE 6: RSF SOCIAL IMPACT SURVEY AND B IMPACT ASSESSMENT RESULTS 2011-2012

SIA: PORTFOLIO AUDIT DATA		RSF Survey (of 100)			B Impact Assessment (of 200)		
		2011	2012	Y2YA	2011	2012	Y2YA
All Borrowers	Participation	29%	32%	+3	51%	50%	-1
	# of Borrowers	22/76	27/84	+5/+8	39/76	42/84	+3/+7
	Average	60	68	+8	98	95	-3
	Max	75	89	+14	115	180	25
	Min	29%	32%	+3	51	57	+6
	σ	22/76	27/84	+5/+8	21	20	-1
Food and Agriculture	% of Portfolio	32%	52%	20%	38%	45%	7%
	Average	59	67	+8	95	103	8
	Max	75	89	+14	155	180	25
	Min	47	45	-2	67	57	-10
	Count	7	14	+7	15	19	4
	σ	12	8	-4	21	26	5
Education and the Arts	% of Portfolio	41%	30%	-11%	31%	29%	-2%
	Average	60	65	+5	97	97	0
	Max	66	73	+7	132	115	-17
	Min	47	53	+6	51	79	28
	Count	9	8	-1	12	12	0
	σ	6	9	+3	20	10	-9
Ecological Stewardship	% of Portfolio	27%	19%	-9%	28%	24%	-4%
	Average	62	77	+15	103	94	-9
	Max	69	79	10	149	104	-45
	Min	54	75	21	66	66	0
	Count	6	5	-1	11	10	-1
	σ	6	11	4	21	15	-6

Source: RSF

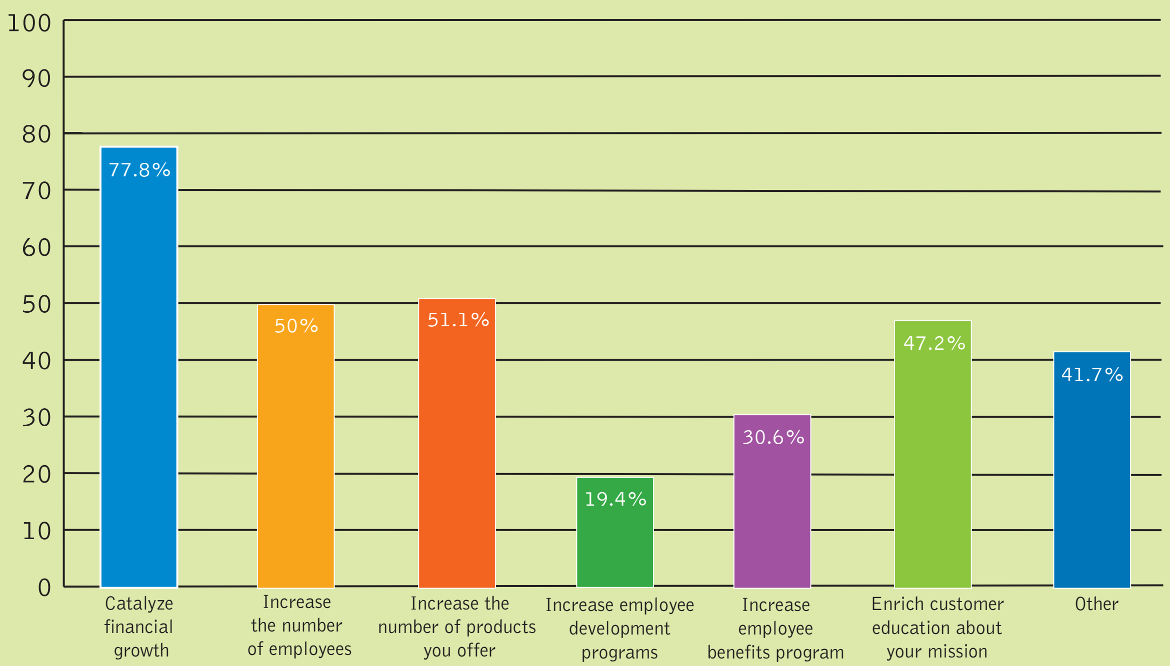
In analyzing these results, it is important to remember that each borrower has gone through a thorough vetting and due diligence process in order to become a RSF borrower. The bar is already high when a borrower begins the impact assessment project. Therefore, high impact is equal to borrowers maintaining already high standards.

Ideally, RSF wants to see aggregate scores go up each year, indicating an increase in RSF's borrower portfolio's impact. It is important to note that the B Impact Assessment experienced an adjustment from 2011 to 2012, which contributed to lower scores by ten points across all assessment takers during those years. At the same time, within this pool, RSF borrowers collectively experienced only a three-point drop; because of the adjustment, can be interpreted as an overall slight increase in impact measured. When the results are normalized, RSF borrower impact increased by seven points.

The RSF Survey shows that borrowers scored highest on questions related to social impact: how it is defined in their own thinking and practice, understanding the value of reviewing its measurement, and its importance among all the concerns an entrepreneur carries. On the other hand, borrowers scored the lowest on advance planning and transparency with the public. Few companies thought through how best to quantify social impact for their specific business model, or were implementing other transparency practices, such as open book management.

There was a significant increase from 2011 to 2012 in participants who attended a Pricing Meeting, up to 36% from 14%. As RSF intends to hold the meetings every quarter, they expect to see this percentage continue to rise. RSF also provides to borrowers advisory services that could draw upon the relationship manager, RSF trustees, RSF borrowers, or other experts in the appropriate field. More borrowers responded affirmatively that they had fully or partially implemented advice given by RSF: 50% in 2011, 73% in 2012. RSF believes this is a testament to the high touch approach that is integral to RSF's success and impact. Figure 7 shows what borrowers reported their loan helped them to achieve.

FIGURE 7: HAS YOUR LOAN FROM RSF HELPED TO (CHECK ALL THAT APPLY):



Source: RSF

IMPACT ON INVESTORS: CLIENT IMPACT SURVEY RESULTS

RSF issued the first Client Impact Survey in 2012 to all 811 investors and donors with e-mail addresses. RSF received responses back from 31% of them. The vast majority of respondents are investors and, in a number of cases, are both investors and donors.

Key findings from the 2012 Client Impact Survey include:

- More than 46 percent of clients had been with RSF for over four years.
- The four top motivations to become an RSF client were: RSF's purpose to transform the way the world works with money; a connection to the work of Rudolf Steiner; the work RSF's borrowers and grantees do; and, RSF's social impact.
- When asked to rank what guided their financial decisions, clients identified: Trust, Security, Transparency, Environmental Impact, and Values Alignment as first priorities. Return and Mission were second order.
- 98% of respondents said that they had either some idea or a clear idea of the impact of their investments based on RSF's communications.
- 73% have encouraged others to invest with or donate to RSF.
- 67% said it is "very important" that their money be invested in a way that is aligned with their values.
- 63% said that their RSF investment has made them think more about sustainability in all aspects of the economy.
- 46% have made changes to their other investments or their investment strategy as a result of what they have learned as a client of RSF.

RSF ORGANIZATIONAL CULTURE SURVEY ANALYSIS: YEARS 2009 – 2012

RSF staff believes that working at RSF changes its staff members. They cite experience, annual performance and development reviews, anecdotal conversation, and exit interviews as evidence of this. They also point to their conscious efforts at culture building within the organization, which include an orientation program and an ongoing program of staff meetings and retreats that focus on continuing staff development. The Human Resource and Organizational Culture teams work to ensure that all employees feel adequately trained, prepared, and supported to meet the goals of their department and to successfully engage with clients and stakeholders. RSF's values and operating principles are also emphasized throughout program activities.

In 2012, RSF had 33 staff members: 17 in their first to third year of employment; seven in their fourth to seventh year; and nine who were in their eighth year of employment or greater. The employee survey contains a set of questions where employees rate RSF on a one to ten scale.

Based on these results, overall, staff members have felt supported in their career development, the overall work environment, and the opportunities for collaboration. The most outstanding responses came regarding the benefits program, which, in 2011, included medical, dental, and vision insurance, long-term disability insurance, and a generous retirement plan contribution benefit for all employees who have been with RSF for one year or more. Employees also highlighted the positive work environment and the office location in the Presidio neighborhood of San Francisco as a benefit.

FIELD BUILDING

RSF has affected significant influence over partner organizations in the social finance field by serving on their boards, being a primary sponsor, or leading planning and strategic processes through committees. Organizations in which RSF has had these kinds of roles include: New Resource Bank, Investors' Circle, Social Venture Network, BALLE (Business Alliance for Local Living Economies), B Lab and PlayBIG. Others that will be included in upcoming partner audits are: Slow Money, Bioneers, Sustainable Agriculture and Food System Funders, Toniic, Capital Institute, Green America, PRI Makers Network, Confluence Philanthropy, SOCAP, Biodynamic Association, and Association of Waldorf Schools of North America.

As shown, RSF has spent significant effort, time, and resources toward the development of the Social Finance field. While field building is its least developed locus from the formal perspective of impact assessment, staff cited some important milestones achieved, which demonstrate the kind of impact that they hope to measure more objectively over time.

CONCLUSION

RSF's Social Lending Program represents an important and successful experiment in bringing trust and confidence back into financial transactions between people and organizations. It has helped hundreds of organizations deepen their impact, pioneered new models for investors and borrowers, and led critical conversations with other financial institutions to deepen the conversation and widen the range of tools and approaches for how finance can create social benefit.

In addition, by enlarging the lens from the loan fund to consider RSF's combined donor, lending and field-building activities, RSF is able to articulate a vision for social enterprise support that is holistic and comprehensive. Like other nonprofits, it has a theory of change that extends beyond its lending activity.

POSTSCRIPT

At its core, RSF sees itself not just as a financial institution, but as an innovator that attempts to test new models of socially-beneficial finance, prove which ones can work, and then work to have them adopted by others. RSF continues to build and experiment with new financial innovations and is tracking some of the following as stand-alone innovations that can be adopted by others;

- RSF Pricing Meetings and RSF Prime: There has been increasing interest in RSF's pricing meetings by other institutions. RSF hosted a public forum on this innovative approach to setting quarterly interest rates at the Green Festival in 2011, and has been encouraging community banks and credit unions to adopt a similar practice.

- Shared Gifting: This innovative approach to philanthropy has been practiced by the Mid-States Shared Gifting Group for over 15 years as a result of research into associative economics and the insights of Elise Ott Casper. The RSF Philanthropic Services program created its own version to apply to its grant making processes. A first successful pilot in the San Francisco Bay Area in 2011 generated industry interest, including a feature article in the Chronicle of Philanthropy. The Shared Gifting program is an innovative grant making process that helps transform the power dynamics that exist in philanthropy by fostering a spirit of collaboration and learning, rather than competition, in the grant making process. A second cycle took place in Skagit County, WA in October 2013. Kelley Buhles, Director of Philanthropic Services, published a white paper on Shared Gifting that solidifies the case for its importance. The transformative practice of having each participant in the process serve as both grantor and grantee with and for each other is the leading edge and direction for the future of philanthropy.

- Local Initiatives Fund: Based on the idea that developing a local economy requires the application of different kinds of money for the range of needed activities, RSF has co-created with a lead donor, a grant fund as a source that will address a spectrum of local economy financial needs via conventional grants, credit enhancements, loan guarantees, and convertible notes. Additional possibilities are being researched. Having a singular mission-guided funding source put to a diversity of uses is possible at RSF because of the range of RSF's financing and charitable expertise. The result will be a coherent and integrated view of how the many forms of capital can be brought together.