CHAPTER 2

Financing by Private Nonprofit Organizations*

A. NATURE OF MARKET

Private, nonprofit organizations during the past several decades have benefited substantially through the expanded interest among lenders in providing practical, economic loans for needed expansion of facilities. Today the market for such loans includes underwriting for public distribution and direct loans by insurance companies, banks, pension funds, labor unions, and so forth. Sound underwriting practices by underwriters specializing in the field has contributed to outstanding performance on issues sold publicly for an extended period of years. This exemplary performance record obviously influenced large unit buyers to accelerate an increase in their holdings in this classification by larger participations in publicly distributed issues and by becoming direct lenders. Thus for a period of years there has been very active competition among underwriters and lenders to acquire the obligations of nonprofit organizations whenever the quality of the credit could be established.

The quality of each specific loan has had a direct bearing on the breadth of its marketability. Obligors with a good past record of earnings and a showing of ability to comfortably service the proposed indebtedness have usually been pursued by several lenders. At the other extreme there have been some loan proposals where the absence of performance or the uncertainty of future potential resulted in a general lack of lenders' enthusiasm for the project. Since the great majority of private nonprofit organizations are well managed, the overall general experience nevertheless has been favorable for borrowers.

1. SIGNIFICANT INVESTOR GROUPS

From the beginning of institutional financing right up to the present time, the participation of the private, individual investor has been of great importance. Sales of $500 bonds and an annual average unit sale of less than $2,500 was the general experience of pioneer dealers in church bonds. Today, individuals buy in much larger units; $25,000, $50,000, or $100,000 purchases by one person are fairly frequent. Currently, with the addition of large block sales to insurance companies and other institutional accounts, the average unit sale has increased substantially. Thus the total dollar volume of securities purchased by individuals has increased constantly and very substantially. For most of the past 20 years individual investors have accounted for more than 50 percent of the total volume of nonprofit-organization securities sold.

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